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**ONTARIO
MUNICIPAL
EMPLOYEES
RETIREMENT
BOARD**

ANNUAL REPORT 1986



OMERS

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

Established almost 25 years ago by an Act of the Ontario Legislature, the Ontario Municipal Employees Retirement System is a pension fund serving a diversified membership of employees of local government.

In addition to 1,069 municipalities, local boards and schoolboards, OMERS also manages the pension plans of Ryerson Polytechnical Institute and the Colleges of Applied Arts and Technology on a management fee basis.

OMERS is financed by equal contributions from member municipalities and their employees. To meet its obligations to present and future members, OMERS must invest their funds and reinvest the returns prudently and effectively.

OMERS is a contributory defined benefit plan, but ad hoc increases and improvements to retirement benefits have been made over the years without any increase in member and employer contribution levels. These improvements to the pension benefits were made possible by sound and

stable financial planning and because of the strong investment performance of the OMERS fund.

OMERS' fund currently is invested in a widely diversified portfolio of capital market investments including equities, bonds, short-term money market securities, mortgages, real estate, term loans and venture capital.

OMERS is managed by a Board whose eleven members are appointed by the Lieutenant Governor in Council on the recommendation of the Treasurer of Ontario. The Board is unique to the pension world with the majority of the members of the Board being employees of local governments contributing to the plan. Other members are elected or appointed officials of municipalities and local boards of municipalities. Thus OMERS is managed by and for local government employees and employers with the sole and dedicated purpose of providing an appropriate and uniform retirement income at stable and reasonable contribution rates.

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*About the cover:
The new building at One University Avenue in
Toronto, where OMERS' offices are now located.*

CHAIRMAN'S REPORT

We are pleased to report that a strong performance by OMERS in 1986 has maintained and built upon the sound financial position of the pension fund. This position enables OMERS to perform its fundamental function — the provision of pension benefits to present and future members. According to the actuaries' report, OMERS is well placed to meet its obligations for the foreseeable future.

During the year, OMERS obligations increased as the number of contributing members grew to 140,120 from 135,098 in 1985 and the number of pensioners rose to 33,340 from 30,881.

Pension contributions of \$462 million showed little change from the previous year. OMERS' contribution rates are integrated with Canada Pension Plan contributions and are based on 7% of the salary of individual members (1% more for members with a normal retirement age of 60) with equal member and employer contributions.

For the third consecutive year, investment income outstripped pension contributions. At \$819 million, investment income was up by 26% from the \$651 million earned in 1985. By industry standards, OMERS' return has been consistently above average. For the past five years, the average rate of return on the fund was 19% per annum, compared to the SEI Comparative Measurement Service median return of 17.4%.

Due to the level of return achieved over the years, and to sound financial planning, OMERS has been able to make steady improvements to retirement benefits. In 1986, pensions were raised by 6½% — the largest increase since 1975.

Furthermore, we have introduced a "rule of 85" for members with a normal retiring age of 60 — permitting them to retire early if their age, combined with years of service, reaches 85 years. This brings these members in line with those who have a normal retiring age of 65 and are eligible to apply for the rule of 90.

The market value of the pension fund investments has grown substantially in recent years. By the end of 1986, the market value was \$8.2 billion,

compared to just under \$7 billion in 1985.

In little over two decades, OMERS has grown to become one of the largest pension funds in Canada. But the rapid growth has not been at the expense of prudent business principles. We constantly review policies and set goals to ensure that the investments are well balanced and diversified — to protect against downturns within regions and industry groups. Again in 1986 we made strides towards these goals.

While the strength and performance of the fund — and the efficient administration of pensions — are our primary concerns, the Board of Directors is also very conscious of OMERS' role as a responsible corporate citizen.

We are therefore proud of the significant contribution that OMERS has made to Ontario and Canada over the years through sound investments that have helped stimulate economic growth, create employment, finance business expansions and support small business.

In 1986, OMERS' impressive record in this area was upheld. To single out just one of many important investments in Ontario during the year, OMERS completed Constitution Square in Ottawa — a major real estate development project that has helped revitalize the city's downtown core.

One other real estate project warrants special mention: in 1986, OMERS purchased and completed a new office tower at One University Avenue in Toronto — a building that now houses our head office along with a number of other tenants. From this new vantage point, the people at OMERS look forward to another year of serving our membership.

On behalf of the Board,



C.M. Beckstead, Chairman
April 24, 1987

1986 IN REVIEW

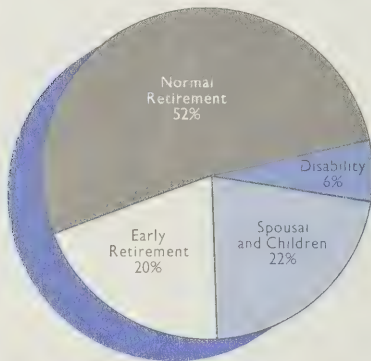
PENSION PROGRAM

In 1986, OMERS paid out a total of \$133.5 million in pensions — up 24% over the previous year.

By the end of the year, the system included 33,340 pensioners, an increase of 8%. This reflects steady growth in the number of pensioners in the past decade.

During 1986, the recipients of pension benefits fell into 4 basic categories, as follows:

1986 PENSION PROFILE



The payments actually made to pensioners during a given year form just one part of OMERS' obligations. The strength of the fund is judged by its ability to meet *future* obligations.

We must therefore look at the future requirements of 140,120 current contributing members of different ages, retiring at different times. These are the factors that actuaries look at when they make their valuation reports.

The latest actuarial evaluation, prepared last

year by The Wyatt Company, indicates that OMERS is in sound financial condition and that current member and employer contribution rates appear sufficient to fund future benefits.

In preparing the valuation, actuaries assumed salary increases averaging 6% a year, and fund earnings of 7% a year to the retirement of a member and 6% thereafter. The actuaries also assumed annual increases of 5% on the maximum pensionable earnings used under the Canada Pension Plan — which is \$25,900 in 1987.

(\$ Millions)	Actuarial valuation results As at January 1	
	1986	1985
Actuarial liabilities		
Present value of:		
Pensions under payment	\$1,186.9	\$ 969.3
Vested deferred benefits	34.3	32.1
Benefits for present contributors and their survivors	4,172.4	3,750.6
Additional voluntary contribution liability	.7	.7
Total liabilities	5,394.3	4,752.7
*Fund assets at January 1	5,962.9	4,980.0
Funding Excess	\$ 568.6	\$ 227.3

* As valued by the actuary.

In calculating actuarial assets (which include only OMERS' fund and not the other plans under management), most investments are carried at book value. However, investments in common shares and real estate are carried at book value plus a calculated portion of unrealized appreciation (or depreciation) to reflect long-term trends. This process averages market values for these investments over a five-year period, thereby smoothing out the effect of market volatility.

Particularly significant in 1986 was the funding excess of \$568.6 million. Over the years, OMERS'

Participants in the System

EMPLOYERS

At the end of 1986, there were 507 municipalities, 132 school boards and 430 other local boards participating in OMERS for a total of 1,069 participating employers — an increase of 6 employers.

OMERS represents a pooling of large and small municipal employers. More than half of the participating employers have fewer than 25 employees who are members of the system and for these the average is 9 members each. At the other extreme, 59% of the membership is employed by 63 employers with an average of 1,313 members each.

CONTRIBUTING MEMBERS

In the past decade, OMERS' membership has increased from 106,030 to 140,120.

Membership activity in 1986 was as follows:

Contributing members, January 1, 1986	135,098
Members enrolled during 1986	15,342
	<u>150,440</u>
Less: terminations, transfers, disabled and deaths	7,592
retirements	2,728
	<u>10,320</u>

Contributing members, December 31, 1986 140,120

In 1986, over half of OMERS' members were employees of municipalities, one quarter were employees of school boards and the remainder were employees of other local boards. Two out of every five members were female and one in eight members was a policeman or fireman with a normal retirement age of 60 years.

PENSIONERS

The number of pensioners continued to grow, as follows:

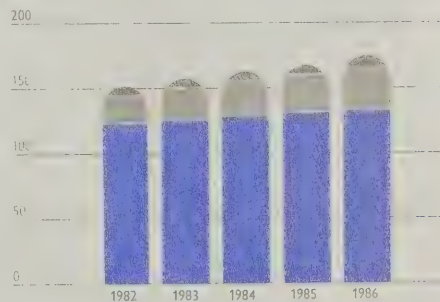
Pensioners, January 1, 1986	30,881
Additions during the year	3,582
Deletions:	
death of pensioners	1,090
other causes	33
	<u>1,123</u>

Pensioners, December 31, 1986 33,340

NUMBER OF PARTICIPANTS

(Thousands)

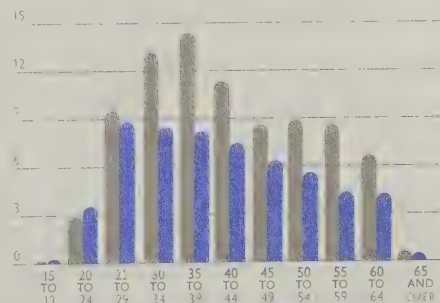
■ Deferred Vested ■ Pensioners ■ Actives



MEMBER CLASSIFICATION BY AGE GROUPING

(Thousands)

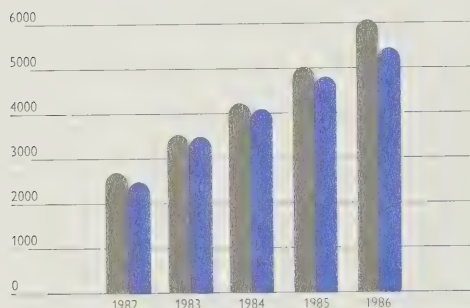
■ Males ■ Females



actuarial assets have matched or exceeded the minimum liabilities (or funding requirements) established by the actuaries.

ACTUARIAL ASSETS VS MINIMUM LIABILITIES
(\$ millions)

■ Actuarial Assets ■ Minimum Liabilities



Assets exceeded minimum funding liabilities by a wider margin in 1986, leaving OMERS in a strong position to respond to potential changes in the pension environment.

The funding excesses, sparked in recent years by an unusually high level of activity in global capital markets, have allowed for regular improvements to benefits. Since 1980, basic benefits have increased 4.3% annually, on average, while spousal benefits have been strengthened and made more equitable and early retirement provisions have been expanded. In 1986 alone, pensions were raised by 6½% and a "rule of 85" was introduced, as mentioned in the Chairman's Report.

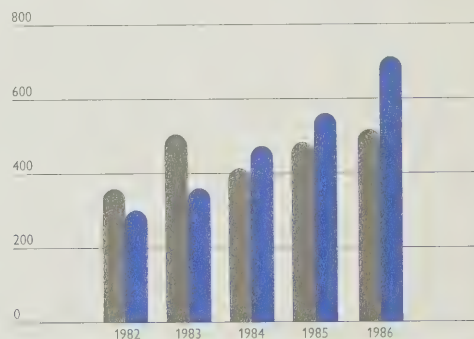
A healthy safety margin is more important now — during this era of pension reform — than ever before. New funding requirements may well emerge with the upcoming Pension Benefits Act, and indexing for existing and future pensioners may become law. The cost of these may, in fact, be greater than the current excess, and so we will continue to strive to achieve a high level of returns — to protect against increases in contribution rates.

INVESTMENT PROGRAM

OMERS' investment performance has fuelled the growth of the pension fund in recent years. In fact, beginning with 1984, total investment income has exceeded contributions from employers and employees. This performance has helped OMERS make ad hoc increases and other enhancements to retirement benefits without requiring increased contributions.

ANNUAL INCOME
(\$ millions)

■ Employer/Employee Contributions ■ Investment Income*



* Investment income includes cash income from interest, dividends etc., plus gains realized upon sale of securities. It pertains to OMERS fund only and does not include income from other plans managed by OMERS.

These returns have been achieved by a broadly based investment portfolio widely diversified by region, by industry and by type of asset. This approach not only reflects the rapidly changing economic and financial environment, but also provides a balance between long and short-term investments to ensure stability, as well as flexibility.

Diversification has also been made necessary by the rapid growth of assets under management at OMERS. From a market value of roughly \$2.5 billion in 1981, the fund had grown to \$8.2 billion by the end of 1986. Indeed, in just the last year, the market value grew by \$1.2 billion.

Over the years, we have increasingly concentrated on capital market investments, in order to take advantage of greater flexibility, greater opportunities for diversification and higher rates of return.

Our strategy of maintaining a diversified investment portfolio has stood us in good stead in light of the stormy global economic environment of 1986. Internationally, the year saw a plunge in international oil prices, major realignments of international currencies, a growing trend towards trade protectionism in the United States and western Europe and the ongoing problems of the less developed countries in paying interest on their massive debts.

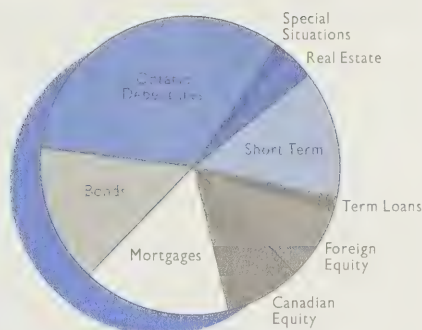
In Canada, the economic environment was somewhat calmer by comparison. Overall, the economy expanded a modest 3.1%, creating 330,000 new jobs and lowering unemployment to 9.4% by year-end. Inflation rates remained fairly steady around the 4% level and interest rates continued a downward trend.

Economic conditions were reflected in the financial markets. Both the stock and bond markets were subject to wide price fluctuations throughout the year.

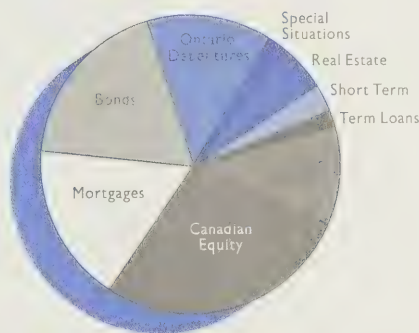
However, despite the volatility, returns on all of the major categories in our investment portfolio were well above the 4.2% inflation rate indicated by the Canadian Consumer Price Index in 1986.

EVOLUTION OF ASSET MIX

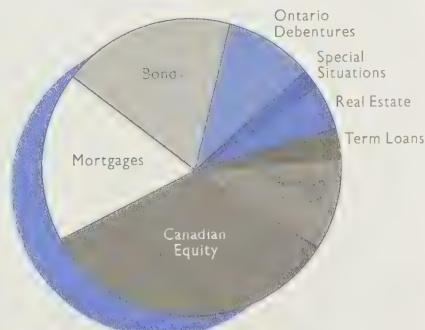
1981



1986



1990*



*Target based on anticipated growth in total assets relative to value of Non-Marketable Ontario Debentures

1986 Investment Highlights

TOTAL PORTFOLIO

- The rate of return in 1986 was 13% — for an average annual return of 19% for the past five years.

BONDS

- Our bond portfolio (including non-marketable Ontario debentures) earned 14.8%, placing OMERS in the top third of funds measured by the SFI Performance Measurement Service.
- Strong market conditions enabled us to realize \$23 million in capital gains on the sale of securities.

TERM LOANS

- The portfolio return was 15.1% in 1986, comparing favourably with a 14% return in 1985.

MORTGAGES

- Fundings for the year totalled \$218 million, increasing the portfolio to \$1.4 billion by year-end.
- At December 31st, OMERS had \$632 million invested and committed in the federal government's NHA non-profit housing program, which provides affordable housing to Canadians of limited means. OMERS is a major source of funds for this valuable program.
- Overall mortgage portfolio return was 12.2% for the latest year and has averaged 19.7% for the past 5 years.

EQUITIES

- Despite volatile markets, equities showed a 12% return in 1986, led by a 20.7% return in the foreign equities component.
- A record \$208 million in capital gains was realized on the sale of securities.
- With a heavy weighting in forest products and in the oil and gas area, and a recovery in prices unfolding, the equity portfolio seems well positioned for 1987.

REAL ESTATE

- OMERS stepped up its direct investments in real estate with the completion of Constitution Square (Phase I) in Ottawa and the purchase of One University Avenue in Toronto.
- Total real estate investments increased to \$385 million at market from \$305 million a year earlier.

SPECIAL SITUATIONS

- Total funds invested or committed increased by \$42 million during the year, broken down as follows:
 - + \$25.6 million venture capital
 - + 3.3 million oil and gas properties
 - + \$19.7 million private placements

FINANCE AND ADMINISTRATION

As OMERS' pension program and assets under management have grown in recent years, so too have administrative expenses and staffing requirements.

In addition to the administration of the various pension programs, the Board is also responsible for the accounting and administrative aspects of the investment program.

In 1986, administrative expenditures were \$9.5 million, compared to \$8.2 million in 1985. While that appears to be a substantial increase, it was well within the expenditure guidelines established by the Board with the assistance of outside advisors.

These guidelines were developed to allow OMERS' resources to keep pace with growth of the fund and the pension program — ensuring a consistently high standard of performance.

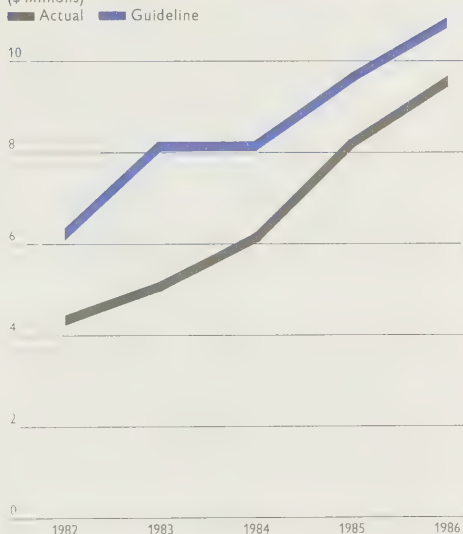
The guidelines allow for administrative expenditure that are the sum total of:

- 1% of member and employer contribution to the basic OMERS plans;
- 1/10 of 1% of the year-end amortized cost of OMERS' capital market securities;
- management fees for the managed plans (OMERS manages plans for other organizations, separate and distinct from the OMERS fund. In 1986 we received \$576,000 in fees for the managed plans compared to \$524,000 in 1985).

For 1986, the expenditure guidelines totalled \$10.7 million, so OMERS actual expenditures reached only 88% of the allowable amount. Effective financial controls have helped contain expenditure growth.

As OMERS continued to grow, the Board authorized 17 new staffing positions for a total of 142. But much of the day-to-day administration of OMERS takes place in the offices of the 1,069 participating

ADMINISTRATIVE EXPENDITURES
(\$ millions)



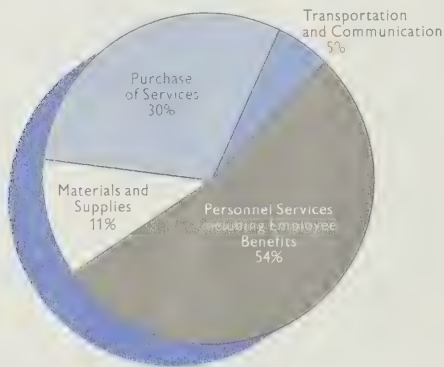
While OMERS' expenditures have increased in recent years, they are still below the expenditure guideline — indicating effective financial controls.

employers — our first line of communication with members of the System.

OMERS is dedicated to maintaining a high level of service while controlling staff growth and costs. To this end, we made a major commitment to automation last year when administrative systems supporting members and pensioners were converted from a computer bureau to an in-house computer.

This was the first step in a project to provide greatly increased support to Pension Division staff. Appropriate automation will be a key factor in OMERS' successful response to the changing pension environment.

1986 ADMINISTRATIVE EXPENDITURES



OUTLOOK

As we look to the future, we have no doubt that the environment *will* change. Both the federal and the provincial governments are reviewing the ground rules for pension funds, and pension reform is an issue of increasing importance — as is indexing. Public sector funds in particular are coming under scrutiny. The Government of Ontario recently established a Public Sector Pensions Advisory Board, a Task Force on the Investment of Public Sector Pension Funds, and a Task Force on Inflation Protection for Employment Pension Plans.

OMERS' concern, first and foremost, is to protect the interests of our present and future members, and we have been active participants in the discussions and debates.

Whatever the outcome may be, we will continue to serve our membership by striving to achieve a high level of performance — and we will continue to work closely with the Government of Ontario, the municipalities and individual members as we establish new goals.

BALANCE SHEET

As at December 31, 1986 (000)

1986

1985

ASSETS:

Investments (note 2)	\$7,413,565	\$6,274,012
Long term receivables (note 5)	136,306	142,553
Fixed assets (note 3)	517	764
Contributions receivable	38,884	38,229
Accrued income	66,768	56,430
	<u>\$7,656,040</u>	<u>\$6,511,988</u>

RESERVES AND LIABILITIES:

Reserves for:

Basic benefits (note 4)	\$6,709,121	\$5,706,521
Supplementary benefits (note 5)	86,867	76,579
	<u>\$6,795,988</u>	<u>\$5,783,100</u>
Deposits from administered pension funds (note 6)	846,818	713,283
Accounts payable and accruals	13,234	15,605
	<u>\$7,656,040</u>	<u>\$6,511,988</u>

Signed on behalf of the Board



Member



Member

STATEMENT OF THE RESERVES

For the year ended December 31, 1986 (000)	Basic Benefits Reserve 1986	1985	Supplementary Benefits Reserve 1986	1985
Balance — beginning of year	\$5,706,521	\$4,814,414	\$76,579	\$66,875
INCREASES IN RESERVES				
Contributions of:				
Members	\$ 220,032	\$ 202,934		
Employers, current service	217,044	202,367	\$ 3,998	\$ 4,127
Members, unfunded liabilities		6,115		
Employers, unfunded liabilities (note 5)	8,372	41,064		
	\$ 445,448	\$ 452,480	\$ 3,998	\$ 4,127
Interest income on unfunded liabilities	12,545	12,132		
Income earned from investments	809,397	643,084	9,690	8,289
Management fees from administered pension funds (note 6)	576	524		
Transfer from supplementary benefits reserve	3,357	2,454		
Total increases	\$1,271,323	\$1,110,674	\$13,688	\$12,416
DECREASES IN RESERVES				
Members' pensions	\$ 133,539	\$ 108,092		
Members' contributions plus interest refunded	30,633	27,094	\$ 2	
Income credited to administered pension funds (note 6)	92,852	73,707		
Administrative expenditures	9,461	8,159	41	\$ 41
Transfer to other pension plans	2,238	1,515		
Transfer to basic benefits reserve for pensions at present value			3,357	2,454
Closing supplementary agreements				217
Total decreases	\$ 268,723	\$ 218,567	\$ 3,400	\$ 2,712
BALANCE — end of year	\$6,709,121	\$5,706,521	\$86,867	\$76,579

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Investments are recorded in the accounts at cost. Gains or losses on their disposal are credited or charged to income. Income from investments is recorded on the accrual basis.

Contributions

Member and employer contributions received subsequent to the year-end, but which are applicable to the current year, are recorded as receivable.

Benefits

Payments for benefits are recorded in the year in which such payments are made.

Fixed assets

Leasehold improvements and computer equipment are recorded at cost and are amortized and depreciated respectively on a straight-line basis over 5 years.

2. INVESTMENTS

Investments as defined in section 8(4) and section 8(6) of The Ontario Municipal Employees Retirement System Act are subject to the regulations of The Pension Benefits Act.

(000)	1986		1985	
	Cost	Market Value	Cost	Market Value
Short-term deposits	\$ 226,067	\$ 226,067	\$ 131,907	\$ 131,907
Bonds and debentures	2,701,959	2,752,446	2,555,184	2,537,875
Term loans	136,723	136,723	113,804	113,804
Mortgages	1,330,120	1,426,337	1,127,128	1,224,082
Equities	2,511,923	3,119,789	1,930,422	2,516,480
Real estate	348,354	385,318	275,416	305,092
Special situations	158,419	158,419	140,151	140,151
	\$7,413,565	\$8,205,099	\$6,274,012	\$6,969,391

Bonds and debentures include \$1,293,025,000 (1985 — \$1,293,025,000) of Province of Ontario debentures bearing a weighted average interest rate of 9.07% and maturing at various dates beginning on December 31, 1993 through to December 31, 2006.

Market value is quoted value for bonds, debentures, and equities. Market value for Ontario Debentures and mortgages is computed based on market yields.

Market value for real estate is appraised value as provided by our property managers.

Market value for term loans and special situations has been assumed to equal the cost due to the nature of the investment.

3 FIXED ASSETS

(000)	1986			1985
	Cost	Accumulated depreciation & amortization	Net	Net
Leasehold improvements	\$ 487	\$449	\$ 37	\$166
Computer equipment	830	350	480	598
	\$1,317	\$799	\$517	\$764

4. BASIC BENEFITS RESERVE

The basic benefits reserve is maintained for the payment of pensions to retired members or their beneficiaries and the future payment of pensions and benefits to contributing members and to terminated members who have elected a deferred pension.

The latest actuarial valuation of the Fund dated January 1, 1986 determined the total actuarial liabilities of the Fund for basic benefits to be \$5,394,318,000 using the unit credit cost method. The actuarially adjusted book value of accumulated assets at that date was \$5,962,870,000 resulting in an actuarial surplus of \$568,552,000.

The results of the actuarial valuation projected to December 31, 1986, indicate that the existing levels of member and employer contributions are sufficient to meet the cost of benefits earned from January 1, 1986 to December 31, 1986.

5. SUPPLEMENTARY BENEFITS RESERVES

Under the terms of The Ontario Municipal Employees Retirement System Act various participating employers have entered into agreements with the Board for the provision of supplementary benefits. The supplementary reserves represent the net assets available for payment of benefits under the agreements. Each employer is responsible, individually, for the funding of such benefits.

Effective January 1, 1983 all assets and liabilities with respect to prior service agreements were transferred to the supplementary reserve. On the same date, the assets and liabilities of most supplementary agreements were then transferred to the basic OMERS plan.

Where the assets transferred from the previous agreements were not sufficient to provide for the liabilities, the unfunded amounts were identified and are being paid off by the participating employers. Such unfunded liabilities are now recorded in the basic benefits reserve and are offset by a long-term receivable from the participating employers, to be paid, with interest, over a period not to exceed 15 years. For any previous agreements where the assets were in excess of liabilities, the resulting surplus was refunded to the participating employers.

Supplementary agreements entered into by employers with the Board subsequent to January 1, 1983 are subject to a final determination of the actuarial liability for benefits under each agreement. The liabilities determined under each new supplementary agreement are recorded in the basic benefits reserve and are offset by a long-term receivable from the participating employers with repayment terms similar to those stated above.

6. ADMINISTERED PENSION FUNDS

The administered pension funds which form part of the Fund and which are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnical Institute, the members of the Legislative Assembly as represented by the Board of Internal Economy — The Caucus Employees Retirement Fund (until June 30, 1986) and the Minister of Energy for the Province

of Ontario (The Ontario Hydro Guarantee Fund) are credited with amounts which are equal to the income earned by the Fund from the investment of the monies deposited in the Fund by the administered pension funds. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

Order in Council #889/86 April 3, 1986 revoked Order in Council 3573/77 dated December 21, 1979, which appointed OMERS Board as Trustee of the Caucus Employees Retirement Plan. The revocation became effective June 30, 1986.

On July 10, 1986 the sum of \$3,250,000 was transferred to the Ontario Public Service Superannuation Fund. As at December 31, 1986 deposits from administered pension plans include \$889,000 representing the remaining Caucus funds to be transferred with interest in 1987.

7. COMMITMENTS

Total investment commitments outstanding at December 31, 1986 amounted to approximately \$420 million of which \$297 million relates to mortgages, \$38 million to real estate, \$10 million to bonds and debentures, \$15 million to term loans and the remaining \$60 million to venture capital and other.

AUDITORS' REPORT TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have examined the balance sheet of the Ontario Municipal Employees Retirement Fund as at December 31, 1986 and the statement of the reserves for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1986 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants, March 31, 1987

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD ACTUARIAL COST CERTIFICATE as at December 31, 1986

The most recent actuarial valuation of the Ontario Municipal Employees Retirement System was conducted as at January 1, 1986 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The results of the actuarial valuation disclosed total Actuarial Liabilities of \$5,394.318 million in respect of benefits accrued for service prior to January 1, 1986. The Actuarial Assets at that date were \$5,962.870 million indicating an actuarial surplus or Funding Excess of \$568.552 million.

The results of the actuarial valuation also indicated that the existing levels of employee and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We are of the opinion therefore, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1986 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Martin Brown

THE WYATT COMPANY, Martin J.K. Brown, F.I.A. Fellow, Canadian Institute of Actuaries
February 27, 1987

SCHEDULE OF ADMINISTRATIVE EXPENDITURES

For the year ended December 31, 1986 (000)	1986	1985
PERSONNEL SERVICES INCLUDING EMPLOYEE BENEFITS		
Salaries of regular staff	\$4,233	\$3,584
Salaries of casual staff	246	200
Pensions	306	255
Employee benefits	306	272
	<u>\$5,091</u>	<u>\$4,311</u>
TRANSPORTATION AND COMMUNICATION		
Travel	\$ 227	\$ 189
Telephone	176	154
Postage and express	111	105
	<u>\$ 514</u>	<u>\$ 448</u>
PURCHASE OF SERVICES		
Actuarial	\$ 135	\$ 125
Audit	102	84
Medical	32	23
Legal	280	283
Other professional	492	392
Recruitment and training	71	46
Office rental	1,232	746
Computer processing	182	796
Equipment maintenance	109	34
Insurance	7	6
Board's services	112	127
Research and information	135	153
	<u>\$2,889</u>	<u>\$2,815</u>
MATERIALS AND SUPPLIES		
Furniture and equipment purchases	\$ 272	\$ 134
Supplies and stationery	223	178
Publications for members and employers	88	73
Office alterations	9	8
Amortization of leasehold improvements	216	83
Depreciation of fixed assets	200	150
	<u>\$1,008</u>	<u>\$ 626</u>
Total Expenditures	<u>\$9,502</u>	<u>\$8,200</u>

FIVE YEAR REVIEW OF FINANCIAL DATA

(000)	1986	1985	1984	1983	1982
*Investments at cost					
Provincial debentures	\$1,293,025	\$1,293,025	\$1,293,025	\$1,293,025	\$1,293,025
Marketable securities	6,120,540	4,980,987	3,988,824	3,075,543	2,440,504
	<u>\$7,413,565</u>	<u>\$6,274,012</u>	<u>\$5,281,849</u>	<u>\$4,368,568</u>	<u>\$3,733,529</u>
*Reserve for					
Basic benefits	\$6,709,121	\$5,706,521	\$4,814,414	\$4,070,275	\$3,191,720
Prior service agreements	—	—	—	—	4,361
Supplementary benefits agreements	86,867	76,579	66,875	64,594	190,304
Managed plans	846,818	713,283	597,789	499,299	413,160
	<u>\$7,642,806</u>	<u>\$6,496,383</u>	<u>\$5,479,078</u>	<u>\$4,634,168</u>	<u>\$3,799,545</u>
Investment income earned					
Basic plan	\$ 716,545	\$ 569,377	\$ 457,582	\$ 371,133	\$ 298,605
Prior service agreements	—	—	—	—	225
Supplementary benefits agreements	9,690	8,289	7,036	6,715	17,704
Managed plans	92,852	73,707	60,060	47,192	39,341
	<u>\$ 819,087</u>	<u>\$ 651,373</u>	<u>\$ 524,678</u>	<u>\$ 425,040</u>	<u>\$ 355,875</u>
Contributions received for					
Basic plan	\$ 437,076	\$ 405,301	\$ 380,769	\$ 361,937	\$ 336,368
Basic plan unfunded liabilities	20,917	59,311	21,329	134,315	—
Prior service agreements	—	—	—	—	32
Supplementary benefits agreements	3,998	4,127	3,172	4,069	41,504
	<u>\$ 461,991</u>	<u>\$ 468,739</u>	<u>\$ 405,270</u>	<u>\$ 500,321</u>	<u>\$ 377,904</u>
Payments to members					
Pensions paid	\$ 133,539	\$ 108,092	\$ 86,858	\$ 69,315	\$ 55,304
Contributions and interest refunded	30,635	27,094	23,377	26,115	16,064
Transfers to other plans	2,238	1,515	1,548	1,347	1,619
	<u>\$ 166,412</u>	<u>\$ 136,701</u>	<u>\$ 111,783</u>	<u>\$ 96,777</u>	<u>\$ 72,987</u>
Administrative expenditures and recoveries					
Pension program					
Gross	\$ 4,202	\$ 3,573	\$ 3,461	\$ 2,959	\$ 2,721
Fee recoveries	617	565	505	513	832
Net	\$ 3,585	\$ 3,008	\$ 2,956	\$ 2,446	\$ 1,889
Investment program	5,300	4,627	2,656	2,330	1,641
	<u>\$ 8,885</u>	<u>\$ 7,635</u>	<u>\$ 5,612</u>	<u>\$ 4,776</u>	<u>\$ 3,530</u>
Total fund annual rates of return					
Dollar-weighted return on book value	12.4%	11.7%	11.2%	10.7%	10.8%
Time-weighted return on market value	13.0%	23.6%	11.0%	15.7%	33.1%
Unaudited figures					

*The amount shown for each year as at December 31 is cumulative

FIVE YEAR REVIEW OF SELECTED DATA

	1986	1985	1984	1983	1982
*Employers					
Municipalities	507	504	493	490	491
School boards	132	133	133	133	129
Other local boards	430	426	426	423	422
	<u>1,069</u>	<u>1,063</u>	<u>1,052</u>	<u>1,046</u>	<u>1,042</u>
*Members contributing, employed by					
Municipalities	71,703	69,469	67,024	65,588	64,510
School boards	36,158	34,568	33,253	32,536	32,027
Other local boards	32,259	31,061	30,168	29,725	29,584
	<u>140,120</u>	<u>135,098</u>	<u>130,445</u>	<u>127,849</u>	<u>126,121</u>
*Members contributing					
Female	56,252	52,880	50,005	48,287	46,924
Male	83,868	82,218	80,440	79,562	79,197
	<u>140,120</u>	<u>135,098</u>	<u>130,445</u>	<u>127,849</u>	<u>126,121</u>
*Normal retirement age 65	122,952	116,937	112,704	110,343	108,855
*Normal retirement age 60	17,168	18,161	17,741	17,506	17,266
	<u>140,120</u>	<u>135,098</u>	<u>130,445</u>	<u>127,849</u>	<u>126,121</u>
*Terminated members who have elected a deferred pension	<u>3,688</u>	<u>3,805</u>	<u>3,786</u>	<u>3,721</u>	<u>3,710</u>
*Number of pensioners by type of pension					
Normal retirement	17,291	16,358	15,218	14,386	13,442
Early retirement	6,611	5,719	4,841	4,034	3,341
Disability retirement	1,940	1,843	1,705	1,603	1,473
Spouses and children	7,498	6,961	6,387	5,590	5,031
	<u>33,340</u>	<u>30,881</u>	<u>28,151</u>	<u>25,613</u>	<u>23,287</u>
*Total membership comprising Contributing members, deferred pensions and pensioners	<u>177,148</u>	<u>169,784</u>	<u>162,382</u>	<u>157,183</u>	<u>153,118</u>
Number of members enrolled each year	15,563	14,694	11,436	9,901	11,764
Number of members terminated each year	10,541	10,041	8,840	8,173	8,680
Net increases in membership	<u>5,022</u>	<u>4,653</u>	<u>2,596</u>	<u>1,728</u>	<u>3,084</u>
Unaudited figures					

*Cumulative totals at year-end

OFFICERS AND DIRECTORS

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD as at December 31, 1986

Mr. S. P. Dobbin, *Chairman,*
Stationary Engineer,
Toronto Board of Education

Mr. E. W. Matthews, *Vice-Chairman,*
Member, Lower Trent
Conservation Authority

Mr. T. D. Allan,
Police Officer, Durham Regional Police Force

Mr. C. M. Beckstead,
Chief Administrative Officer, City of Nepean

Mr. C. R. Bernardi,
Director of Personnel and Labour Relations,
City of Sault Ste. Marie

Mr. P. R. Burke,
Firefighter, City of Windsor

Mrs. O. V. Dryden,
Commissioner — Public Utilities Commission
City of London

Miss D. F. Graber,
Administrative Supervisor, Department of Roads and
Traffic, Municipality of Metropolitan Toronto

Mr. D. S. McColl,
Assistant Deputy Minister,
Ministry of Treasury and Economics

Mr. A. J. Roberts,
Consumer Relations Representative,
St. Catharines Hydro Electric Commission

SENIOR STAFF

Mr. A. W. Reeve,
Executive Director

Mr. P. L. Baxter,
Director of Investments

Mr. A. Trafford,
Director of Pension Administration

Mr. C. Massouras,
Director of Finance and Administration

INVESTMENT POLICY COMMITTEE OF THE BOARD as at December 31, 1986

Mr. R. M. MacIntosh, *Chairman,*
Canadian Banker's Association

Mr. J. C. C. Wansborough, *Vice-Chairman,*
The National Victoria and
Grey Trust Company

Mr. H. M. Cunningham,
Cockfield, Cooper, Cunningham
Investment Counsel Inc.

Mr. N. J. Short,
Guardian Capital Group Limited

Mr. S. P. Dobbin,
Chairman of the Board

Mr. C. M. Beckstead,
Member of the Board

Mr. E. W. Matthews,
Member of the Board

Mr. A. W. Reeve,
Executive Director

Mr. P. L. Baxter,
Director of Investments

ADVISORS TO THE BOARD

Mr. M. J. K. Brown, F.I.A.,
The Wyatt Company, Actuary


Dr. Alexander Roberts,
Medical Advisor

Mr. Maurice Coombs,
Osler, Hoskin & Harcourt, Legal Advisor

Coopers & Lybrand
Auditors

**ONTARIO MUNICIPAL
EMPLOYEES RETIREMENT BOARD**

One University Avenue, Suite 1000
Toronto, Ontario M5J 2P1
(416) 369-2400



**COMMISSION DE RETRAITE
DES EMPLOYÉS MUNICIPAUX DE L'ONTARIO**
1, University Avenue, Bureau 1000
Toronto (Ontario) M5S 2P1
(416) 369-2400

COMMISSION DE RETRAITE DES
EMPLOYÉES MUNICIPAUX DE L'ONTARIO

M. S. P. Dobbin, Président du Conseil,
Technicien-machines,
Conseil scolaire de Toronto

M. E. W. Mathews, Vice-président du Conseil,
Membre de la Régie de protection de la nature
du Bas Trent

M. T. D. Allan,
Agent de police, Police régionale de Durham

M. C. M. Beckstead,
Administrateur en chef, ville de Nepean

M. C. R. Bernardi,
Chef du personnel et des relations de travail,
Ville de Sault-St-Marie

M. P. R. Burke,
Pompier, Ville de Windsor

Mme O. V. Dryden,
Commissaire, Commission des services publics,
Ville de London

Mlle D. E. Graber,
Responsable administrative, Services de la voirie
et de la circulation, Communauté urbaine de Toronto

M. D. S. McGill,
Sous-ministre adjoint,
ministère du Trésor et de l'Economie

M. A. J. Roberts,
Représentant des relations avec les consommateurs,
Commission hydroélectrique de St. Catharines

PERSONNEL CADRE

M. A. W. Reeve,
Directeur exécutif

M. P. L. Baxter,
Directeur des placements

M. A. Trafford,
Directeur de l'administration des retraites

M. C. Massouras,
Directeur des finances et de l'administration

COMITÉ DIRECTEUR DES PLACEMENTS

DE LA COMMISSION
au 31 décembre 1986

M. R. M. MacIntosh, Président du Conseil,
Association des banquiers canadiens

M. J. C. C. Wansborough, Vice-président du Conseil,
Compagnie du Trust National Victoria and Grey

M. H. M. Cunningham,
Cockfield, Cooper Cunningham
Investment Counsel Inc.

M. N. J. Short,
Guardian Capital Group Limited

M. S. P. Dobbin,
Président de la Commission

M. C. M. Beckstead,
Membre de la Commission

M. E. W. Mathews,
Membre de la Commission

M. A. W. Reeve,
Directeur exécutif

M. P. L. Baxter,
Directeur des placements

CONSEILLERS DE LA COMMISSION

M. M. J. K. Brown, F.I.C.A.,
The Wynt Company, actuair

Dr Alexander Roberts,
Conseiller médical

M. Maurice Coombs,
Osler, Hoskin & Hartcourt, conseiller juridique

Coopers & Lybrand,
Vérificateurs

APERÇU DU RÉGIME SUR CINQ ANS

	1986	1985	1984	1983	1982
*Employeurs	507	504	493	490	491
Municipalités	132	133	133	133	129
Autres conseils locaux	430	426	426	423	422
1 069	1 063	1 052	1 046	1 042	
Membres cotisants employeurs par	71 703	69 469	67 024	65 588	64 510
Municipalités	36 158	34 568	33 253	32 536	32 027
Autres conseils locaux	32 259	31 061	30 168	29 725	29 584
140 120	135 098	130 445	127 849	126 121	
Members cotisants	56 252	52 880	50 005	48 287	46 924
Féminins	83 868	82 218	80 440	79 562	79 197
Masculins	140 120	135 098	130 445	127 849	126 121
Âge normal de retraite 65 ans	122 952	116 937	112 704	110 343	108 855
Âge normal de retraite 60 ans	17 168	18 161	17 741	17 506	17 266
Anciens membres qui ont choisi une pension différée	3 688	3 805	3 786	3 721	3 710
Nombre de pensionnés par type de retraite	17 291	16 358	15 218	14 386	13 442
Retraite normale	6 611	5 719	4 841	4 034	3 341
Retraite anticipée	1 940	1 843	1 705	1 603	1 473
Conjoints et enfants	7 498	6 961	6 387	5 590	5 031
*Nombre total de membres, y compris membres cotisants, pensionnés et pensionnés	177 148	169 784	162 382	157 183	153 118
Nombre de membres inscrits chaque année	15 563	14 694	11 436	9 901	11 764
Nombre de membres rayés chaque année	10 541	10 041	8 840	8 173	8 680
Augmentation nette du nombre des membres	5 022	4 653	2 596	1 728	3 084
Chiffres non vérifiés					
*Totaux cumulatifs à la fin de l'année					

APERÇU FINANCIER DES CINQ DERNIÈRES ANNÉES

(en millions de dollars)

	1986	1985	1984	1983	1982
*Placements au prix coûtant	1 293 025 \$	1 293 025 \$	1 293 025 \$	1 293 025 \$	1 293 025 \$
Débitures provinciales	6 120 540	4 980 987	3 988 824	3 075 543	2 440 504
Titres négociables	7 413 565 \$	6 274 012 \$	5 281 849 \$	4 368 568 \$	3 733 529 \$
*Réserve pour	6 709 121 \$	5 706 521 \$	4 814 414 \$	4 070 275 \$	3 191 720 \$
Prévisions de base	—	—	—	—	—
Engagements pour service antérieur	86 867	76 579	66 875	64 594	190 304
Régimes gérés	846 818	713 283	597 789	499 299	413 160
Revenu de placement	7 642 806 \$	6 496 383 \$	5 479 078 \$	4 634 168 \$	3 799 545 \$
Régime de base	716 545 \$	569 377 \$	457 582 \$	371 133 \$	298 605 \$
Engagements pour prestations complémentaires	9 690	8 289	7 036	6 715	17 704
Régimes gérés	92 852	73 707	60 060	47 192	39 341
Cotisations reçues pour	819 087 \$	651 373 \$	524 678 \$	425 040 \$	355 875 \$
Régime de base	437 076 \$	405 301 \$	380 769 \$	361 937 \$	336 368 \$
Dettes non provisionnées du régime de base	20 917	59 311	21 329	134 315	—
Engagements pour service antérieur	—	—	—	—	32
Engagements pour prestations complémentaires	3 998	4 127	3 172	4 069	41 504
Versements aux membres	133 539 \$	108 092 \$	86 858 \$	69 315 \$	55 304 \$
Remboursement de cotisations et d'intérêt	30 635	27 094	23 377	26 115	16 064
Transferts à d'autres régimes	2 238	1 515	1 548	1 347	1 619
Depenses administratives et recouvrement	166 412 \$	136 701 \$	111 783 \$	96 777 \$	72 987 \$
Régime de retraite	4 202 \$	3 573 \$	3 461 \$	2 959 \$	2 721 \$
Montant brut	617	565	505	513	832
Recouvrement d'honoraires	3 585 \$	3 008 \$	2 956 \$	2 446 \$	1 889 \$
Montant net	5 300	4 627	2 656	2 330	1 641
Régime de placement	8 885 \$	7 635 \$	5 612 \$	4 776 \$	3 530 \$
Taux de rendement annuels du total de la caisse	12,4%	11,7%	11,2%	10,7%	10,8%
Rendement interne sur valeur marchande	13,0%	23,6%	11,0%	15,7%	33,1%
Chiffres non vérifiés					

* Le montant indiqué chaque année au 31 décembre est cumulatif.

DÉPENSES ADMINISTRATIVES

Pour l'exercice terminé le 31 décembre 1986 (en milliers de dollars) 1986 1985

SERVICES DU PERSONNEL, Y COMPRIS LES CHARGES SOCIALES

Salaires du personnel permanent	4 233 \$	3 584 \$
Salaires du personnel occasionnel	246	200
Prestations de retraite	306	255
Charges sociales	306	272
	5 091 \$	4 311 \$

TRANSPORT ET COMMUNICATION

Déplacements	227 \$	189 \$
Téléphone	176	154
Poste et messagerie	111	105
	514 \$	448 \$

ACQUISITION DE SERVICES

Actuariat	135 \$	125 \$
Vérification	102	84
Services médicaux	32	23
Services juridiques	280	283
Autres services professionnels	492	392
Recrutement et formation	71	46
Location de bureaux	1 232	746
Informatique	182	796
Entretien	109	34
Assurance	7	6
Services de la Commission	112	127
Recherche et information	135	153
	2 889 \$	2 815 \$

MATÉRIEL ET FOURNITURES

Achat de mobilier et de matériel	272 \$	134 \$
Fournitures et papeterie	223	178
Publications à l'intention des participants et des employeurs	88	73
Modification des bureaux	9	8
Amortissement des améliorations locatives	216	83
Amortissement des immobilisations	200	150
	1 008 \$	626 \$
Total des dépenses	9 502 \$	8 200 \$

par la Caisse en plaçant les dépôts qu'elles lui confient. Aux termes des divers contrats de gestion, la Commission de retraite des employés municipaux de l'Ontario est autorisée à recouvrer les frais qu'elle engage pour administrer ces régimes.

Le décret 889/86 du 3 avril 1986 a eu pour effet d'abroger le décret 3573/77 du 21 décembre 1979, selon lequel la Commission de retraite des employés municipaux de l'Ontario était nommée fiduciaire du Caucus Employées Retirement Plan. L'abrogation est entrée en vigueur le 30 juin 1986.

Le 10 juillet 1986, 3 250 000 \$ ont été virés au régime de retraite des fonctionnaires de l'Ontario. Au 31 décembre 1986, les dépôts des caisses de retraite administrées comprenaient 889 000 \$ représentant le solde des fonds du Caucus qui sera viré, avec les intérêts, en 1987.

7. ENGAGEMENTS

Les engagements de placement en cours au 31 décembre 1986 totalisaient environ 420 000 000 \$, dont 297 000 000 \$ pour des prêts hypothécaires, 38 000 000 \$ pour des biens immobiliers, 10 000 000 \$ pour des obligations et des déventures, 15 000 000 \$ pour des prêts à terme et le solde de 60 000 000 \$ pour du capital de risque et d'autres placements.

RAPPORT DES VÉRIFICATEURS À LA COMMISSION DE RETRAITE DES EMPLOYÉS MUNICIPAUX DE L'ONTARIO

Nous avons vérifié le bilan de la Caisse de retraite des employés municipaux de l'Ontario au 31 décembre 1986 et l'état des réserves pour l'exercice terminé à cette date. Notre vérification a été effectuée conformément aux normes de vérification généralement reconnues et a comporté, par conséquent, les sondages et autres procédés que nous avons jugés nécessaires dans les circonstances.

À notre avis, ces états financiers présentent fidèlement la situation financière de la Caisse au 31 décembre 1986 et les résultats de son exploitation pour l'exercice terminé à cette date selon les principes comptables généralement reconnus, appliqués de la même manière qu'au cours de l'exercice précédent.

Cosper & Lyman

Comptables agréés, le 31 mars 1987

CERTIFICAT ACTUARIEL DE LA COMMISSION DE RETRAITE DES EMPLOYÉS MUNICIPAUX DE L'ONTARIO

au 31 décembre 1986

La plus récente évaluation actuarielle relative au Régime de retraite des employés municipaux de l'Ontario a été effectuée au 1^{er} janvier 1986 à partir de la méthode actuarielle de répartition des prestations avec projection des résultats, en conformité avec les Recommandations sur l'évaluation actuarielle des régimes de retraite adoptées par l'Institut canadien des actuaires. Les résultats de cette évaluation actuarielle indiquent une dette actuarielle totale de 5 394,318 millions \$ relativement aux prestations accumulées pour services accomplis par les participants avant le 1^{er} janvier 1986. La valeur actuarielle de l'actif de la caisse était de 5 962,870 millions \$, indiquant un surplus actuariel ou excédent de provisionnement de 568,552 millions \$.

Les résultats de cette évaluation actuarielle indiquent aussi que les niveaux des cotisations patronales et salariales obligatoires sont suffisants pour couvrir le coût des prestations que les participants accumuleront au titre de leurs services accomplis pendant chaque année suivant la date de cette dernière évaluation, jusqu'à la date de la prochaine évaluation. D'après les faits mentionnés ci-haut, il est de notre avis, conformément aux principes actuariels généralement acceptés, que l'actif de la caisse de retraite au 31 décembre 1986 est suffisant pour couvrir la dette actuarielle totale du régime relativement aux services accomplis par les participants jusqu'à cette date.

Martin Brown

LA COMPAGNIE WYATT, Martin J. K. Brown, F.I.C.A., Fellow, Institut canadien des actuaires

Le 27 février 1987

(en milliers de dollars)		1986		1985
Prix	Amortissement	Montant net	Montant net	Montant net
coûtant cumulé				
487 \$	449 \$	37 \$	166 \$	
830	350	480	598	
1 317 \$	799 \$	517 \$	764 \$	

4 RÉSERVE POUR LES PRESTATIONS DE BASE

La réserve pour les prestations de base vise le versement de prestations aux participants retraités ou à leurs bénéficiaires ainsi que le versement futur de prestations aux cotisants et aux anciens participants qui ont choisi de les différer.

D'après la dernière évaluation actuarielle de la Caisse, le 1^{er} janvier 1986, la dette actuarielle relative aux prestations de base totalisait 5 394 318 000 \$ selon la méthode de répartition des prestations. À cette date, la valeur comptable de l'actif cumulé redressé de façon actuarielle s'établissait à 5 962 870 000 \$, se traduisant par un excédent actuariel de 568 552 000 \$.

Après les résultats de l'évaluation actuarielle s'étendant jusqu'au 31 décembre 1986, le montant actuel des cotisations des participants et des employeurs suffit à payer le coût des prestations gagnées du 1^{er} janvier 1986 au 31 décembre 1986.

5 RÉSERVE POUR LES PRESTATIONS COMPLÉMENTAIRES

Aux termes de la loi sur le régime de retraite des employés municipaux de l'Ontario, divers employeurs participants ont conclu avec la Commission des contrats portant sur le versement de prestations complémentaires. La réserve complémentaire représente l'actif net pouvant servir au versement des prestations aux termes de chaque employeur de financer ces prestations.

Le 1^{er} janvier 1983, tous les éléments d'actif et de passif liés aux contrats portant sur des services passés ont été vités à la réserve complémentaire. À cette date, l'actif et le passif de la plupart des contrats complémentaires ont été vités au régime de retraite de base des employés municipaux de l'Ontario. Lorsque l'actif vité des contrats antérieurs ne suffisait pas à financer la dette, l'insuffisance était calculée et payée par les employeurs participants. Cette dette non provisionnée figure maintenant dans la réserve pour les prestations de base, et elle est compensée par une créance à long terme que paieront les employés participants, avec les intérêts, pendant au plus 15 ans. Pour tous les contrats antérieurs, l'excédent de l'actif sur la dette était remboursé aux employeurs participants.

Dans le cadre de contrats complémentaires conclus par des employeurs et la Commission après le 1^{er} janvier 1983, la dette actuarielle liée aux prestations aux termes de chaque contrat doit faire l'objet d'un calcul définitif. La dette calculée selon chaque nouveau contrat complémentaire est inscrite dans la réserve pour les prestations de base, et elle est compensée par une créance à long terme que paieront les employés participants aux conditions précitées.

6 CAISSES DE RETRAITE ADMINISTRÉES

La Caisse comprend des caisses de retraite administrées pour le compte du Conseil des gouverneurs des collèges d'arts appliqués et de technologie de l'Ontario, du Ryerson Polytechnical Institute, des membres de l'Assemblée législative représentés par le Board of Internal Economy (Caucus Employées Retirement Fund) (jusqu'au 30 juin 1986), et du ministre de l'Énergie de la province de l'Ontario (Ontario Hydro Fund) (jusqu'au 30 juin 1986). Les caisses de retraite administrées sont créditées d'une somme égale au revenu gagné

Pour l'exercice terminé le 31 décembre 1986

1. RÉSUMÉ DES PRINCIPALES CONVENTIONS COMPTABLES

Placements
Les placements sont comptabilisés au prix coûtant. Les gains ou les pertes à l'aliénation sont imputés aux résultats. Le revenu de placement est inscrit selon la comptabilité d'exercice.

Cotisations
Les cotisations de participants et d'employeurs pour l'exercice en cours reçues après la fin de l'exercice sont inscrites à titre de cotisations à recevoir.

Prestations
Le versement de prestations est inscrit l'exercice où il a lieu.

Immobilisations
Les améliorations locales et le matériel informatique, inscrits au prix coûtant, sont amortis sur cinq ans selon la méthode linéaire.

2. PLACEMENTS

Les placements définis dans les paragraphes 8(4) et 8(6) de la loi sur le régime de retraite des employés municipaux de l'Ontario sont assujettis aux règlements de la loi sur les régimes de retraite.

(en milliers de dollars)		1986		1985	
	Prix coûtant	Valeur marchande	Prix coûtant	Valeur marchande	
Dépôts à court terme	226 067 \$	226 067 \$	131 907 \$	131 907 \$	
Obligations et débentures	2 701 959	2 752 446	2 555 184	2 537 875	
Prêts à terme	136 723	136 723	113 804	113 804	
Prêts hypothécaires	1 330 120	1 426 337	1 127 128	1 224 082	
Participations	2 511 923	3 119 789	1 930 422	2 516 480	
Biens immobiliers	348 354	385 318	275 416	305 092	
Situations spéciales	158 419	158 419	140 151	140 151	
	7 413 565 \$	8 205 099 \$	6 274 012 \$	6 969 391 \$	

Les obligations et les débentures comprennent des débentures de la province de l'Ontario totalisant 1 293 025 000 \$ (1 293 025 000 \$ en 1985), portant intérêt aux taux moyen pondéré de 9,07% et échéant à diverses dates du 31 décembre 1993 au 31 décembre 2006.

La valeur marchande des obligations, des débentures et des participations correspond au cours du marché. La valeur marchande des débentures de l'Ontario et des prêts hypothécaires est calculée selon le taux de rendement du marché.

La valeur marchande des biens immobiliers représente la valeur d'expertise selon nos gestionnaires immobiliers.

La valeur marchande des prêts à terme et des situations spéciales est présuée égale au coût vu la nature du placement.

RÉSERVES

Pour l'exercice terminé le 31 décembre 1986
(en milliers de dollars)

	1986	1985
Réserve pour les prestations de base	4 814 414 \$	5 706 521 \$
Réserve pour les prestations complémentaires	76 579 \$	66 875 \$

AUGMENTATION DES RÉSERVES

Cotisations :	220 032 \$	202 934 \$	202 367 \$	217 044 \$	6 115 \$	202 367 \$	3 998 \$	4 127 \$
Participants, services courants								
Participants, dette non provisionnée								
Employeurs, dette non provisionnée (note 5)	8 372	41 064						
Intérêts créditeurs sur la dette non provisionnée	445 448 \$	452 480 \$	12 132	809 397	643 084	9 690	3 998 \$	4 127 \$
Revenu de placement	12 545							
Honoraires de gestion des caisses de retraite	576	524						
administrées (note 6)								
Virement de la réserve pour les prestations complémentaires	3 357	2 454						
Total de l'augmentation	1 271 323 \$	1 110 674 \$	13 688 \$	12 416 \$				

DIMINUTION DES RÉSERVES

Prestations des participants	133 539 \$	108 092 \$						
Remboursement de cotisations de participants plus les intérêts	30 633	27 094	2 \$					
Revenu crédité aux caisses de retraite administrées (note 6)	92 852	73 707						
Dépenses administratives	9 461	8 159						
Virement à d'autres régimes de retraite	2 238	1 515						
Virement à la réserve pour les prestations de base, à la valeur actualisée								
Conclusion de contrats complémentaires								
Total de la diminution	268 723 \$	218 567 \$	3 400 \$	2 712 \$				
SOLDE À LA FIN DE L'EXERCICE	6 709 121 \$	5 706 521 \$	86 867 \$	76 579 \$				

CAISSE DE RETRAITE DES EMPLOYÉS MUNICIPAUX DE L'ONTARIO

BILAN

Au 31 décembre 1986 (en milliers de dollars)

1986 1985

ACTIF

Placements (note 2)

Créances à long terme (note 5)

Immobilisations (note 3)

Cotisations à recevoir

Revenu couru

7 413 565 \$	6 274 012 \$
136 306	142 553
517	764
38 884	38 229
66 768	56 430
7 656 040 \$	6 511 988 \$

RÉSERVES ET PASSIF

Réserves :

Prestations de base (note 4)

Prestations complémentaires (note 5)

Dépôts des caisses de retraite administrées (note 6)

Comptes créditeurs et sommes courues

6 709 121 \$	5 706 521 \$
86 867	76 579
6 795 988 \$	5 783 100 \$
846 818	713 283
13 234	15 605
7 656 040 \$	6 511 988 \$

Au nom du conseil

J.M. Belton

Membre

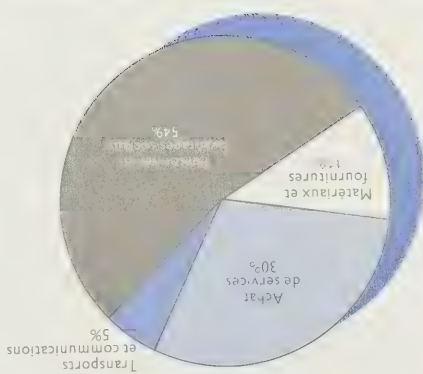
Membre

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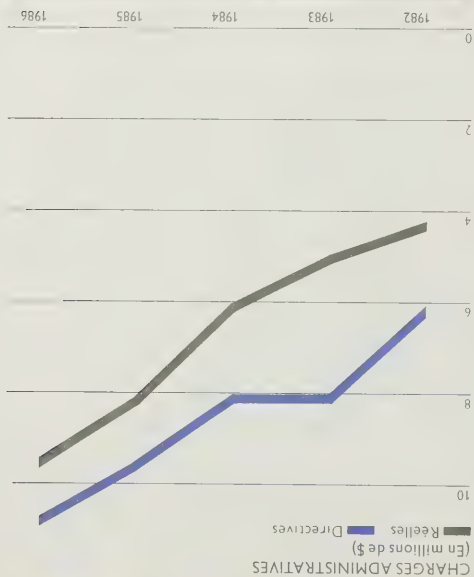
PERSPECTIVES

C'était la première étape d'un projet visant à apporter un soutien nettement accru au personnel de la division des retraites. L'automatisation en bonne et due forme sera un facteur clé du succès remporté par le OMERS face au climat changeant des retraites.

CHARGES ADMINISTRATIVES 1986



Si l'on regarde vers l'avenir, il ne fait aucun doute que le climat changera. Les gouvernements, tant fédéral que provinciaux, examinent les règles fondamentales des caisses de retraite et la répartition des retraites est une question qui acquiert une importance croissante, au même titre que l'indépendance. Les fonds du secteur public en particulier font l'objet d'un examen minutieux. Le gouvernement de l'Ontario a récemment mis en place une commission consultative sur les retraites du secteur public et un groupe de travail sur les caisses de retraite du secteur public. Le OMERS se soucie avant tout de protéger les intérêts de ses membres actuels et futurs, et ses représentants ont participé activement aux discussions et aux débats. Quelle que soit l'issue, nous continuerons de servir nos membres en nous efforçant d'atteindre un niveau élevé de performance; nous poursuivons notre étroite collaboration avec le gouvernement de l'Ontario, les municipalités et les membres individuels pour établir de nouveaux buts.



Si les charges administratives du OMERS augmentent depuis quelques années, elles sont toujours en-deça des directives de dépenses — ce qui prouve l'efficacité des contrôles financiers.

diennne du OMERS a lieu dans les bureaux des 1 069 employeurs participants — notre première ligne de communication avec les membres du régime

Le OMERS s'efforce de maintenir un niveau élevé de service tout en contrôlant la croissance du personnel et les prix de revient. À cette fin, nous avons pris un important engagement vis-à-vis de l'automatisation au cours de l'exercice écoulé quand les systèmes administratifs soutenant les membres et les pensionnés sont passés d'un centre externe et l'information d'information d'information sur place.

Tout comme le programme de retraite et l'actif géré par le OMERS, les charges administratives et les exigences de dotation en personnel ont augmenté au cours des derniers exercices.

Outre l'administration des divers programmes de retraite, le Conseil d'administration est responsable de la comptabilité et de l'administration du programme de placement.

En 1986, les charges administratives se sont élevées à 9,5 millions de dollars contre 8,2 millions de dollars en 1985. Quoiqu'importante, cette augmentation ne dépassait pas les directives de dépenses établies par le Conseil d'administration avec l'aide d'experts indépendants.

Ces directives ont été mises au point pour faciliter aux ressources du OMERS le maintien du rythme de croissance de la caisse et du programme de retraite, permettant ainsi une norme de performance constamment élevée.

Les directives autorisent des charges administratives qui constituent la somme totale de :

- 1 % des cotisations des membres et des employeurs aux régimes de base du OMERS
- 1/10 de 1 % de la fraction non amortie du coût à la fin de l'exercice des titres du marché des capitaux du OMERS
- des honoraires de gestion pour les régimes gérés (le OMERS gère des régimes pour d'autres organismes séparés et distincts de la caisse du OMERS. En 1986, nous avons reçu 576 000 \$ 524 000 \$ en 1985).

Pour 1986, les directives de charges atteignaient un total de 10,7 millions de dollars, les charges réelles du OMERS ne représentant donc que 88 % du montant autorisé. Des contrôles financiers efficaces ont aidé à contenir la croissance des charges.

Le OMERS poursuit sa croissance, le Conseil d'administration a autorisé 17 nouveaux postes pour l'exercice en cours, soit un total de 142. Mais la plus grande partie de l'administration quoti-

TOTAL PORTEFEUILLE :

- Le taux de rendement en 1986 a été de 13 %
- soit un taux annuel moyen de 19 % pour les cinq derniers exercices.

OBLIGATIONS

- Notre portefeuille d'obligations (y compris des débentures de l'Ontario non négociables) a gagné 14,8 %, ce qui place le OMERS parmi les trois premières caisses selon les mesures de performance SET.

- Le solide climat du marché nous a permis de réaliser 23 millions de dollars de gains en capital sur la vente de valeurs mobilières.

PRETS À TERME :

- Le rendement du portefeuille a été de 15 % en 1986 contre un rendement de 14 % en 1985.

FUNDS HYPOTHÉCAIRES

- Les finances pour l'exercice ont atteint un total de 218 millions de dollars, ce qui a permis le portefeuille de 1,4 milliard de dollars à la fin de l'exercice.

- Au 31 décembre, 0,82 millions de dollars étaient payés dans le programme de location.

- Le montant prévu de la LNH de non-couverture de la LNH est de 1,2 millions de dollars, ce qui prévoit des placements adéquats pour les besoins de la LNH.

- Le rendement global du portefeuille hypotécaire a été de 13,2 % pour l'exercice écoulé.

- Le rendement global du portefeuille hypotécaire a été de 19,7 % pour les cinq

TITRES DE PARTICIPATION :

- Malgré la précarité des marchés, les titres de participation ont affiché un rendement de 12 % en 1986, mené par un rendement de 20,7 % de la composante des titres étrangers.

- Des gains en capital records de 208 millions de dollars ont été réalisés sur la vente de valeurs mobilières.

- Vu sa forte pondération dans les produits forestiers et dans le domaine du pétrole et du gaz et la reprise des cours qui se dessine, le portefeuille de titres de participation semble en bonne posture pour 1987.

BIENS IMMOBILIERS :

- Le OMERS a accéléré ses placements directs dans l'immobilier avec l'achèvement des travaux du square de la Constitution (Phase I) à Ottawa et l'achat du Lin avenue University à Toronto.

- Le total des placements immobiliers est passé d'une valeur marchande de 305 millions de dollars il y a un an à 385 millions de dollars.

SITUATIONS SPÉCIALES :

- Le total des fonds investis ou engagés a progressé de 42 millions de dollars au cours de l'exercice, il se répartit comme suit :

- 1,25 millions de dollars de capitaux de risque
- 3,3 millions de dollars de propriétés pour le

- 19,7 millions de dollars de placements privés

placements à long et à court terme pour assurer

stabilité et souplesse.

La diversification s'est également imposée du fait

de la croissance rapide de l'actif géré au OMERS.

La caisse est passée d'une valeur marchande d'en-

viron 2,5 milliards de dollars en 1981 à 8,2 mil-

liards de dollars à la fin de 1986. Rien que l'an-

dernier, la valeur marchande a progressé de 1,2

milliard de dollars.

Au fil des ans, nous nous sommes de plus en plus

concentrés sur les placements du marché des capi-

taux afin de tirer parti d'une plus grande souplesse,

de meilleures occasions de diversification et de

taux de rendement plus élevés.

Notre stratégie de maintien d'un portefeuille de

placements diversifiés nous a rendu grand service à

la lumière du climat économique mondial houleux

de 1986. Sur la scène internationale, on a vu

pendant l'année le plongeon des prix mondiaux

du pétrole, des réalignements importants des

devises internationales, une tendance croissante au

protectionnisme aux Etats-Unis et en Europe occi-

dentale et les pays en développement en proie aux

problèmes continus du paiement des intérêts de

leurs dettes massives

Au Canada, le climat économique a été relative-

ment plus calme. Dans l'ensemble, l'économie a

nouveaux emplois ont été créés et le taux de

chômage avait baissé à 9,4 % à la fin de l'année. Les

taux d'inflation sont restés assez stables aux ale-

ments de 4 %, et les taux d'intérêt ont poursuivi leur

tendance à la baisse.

Ce climat économique s'est reflété dans les

marchés financiers. Tant les marchés boursiers

qu'obligataires ont été la proie de fortes fluctua-

tions des cours pendant toute l'année.

Malgré la précarité toutefois, les rendements de

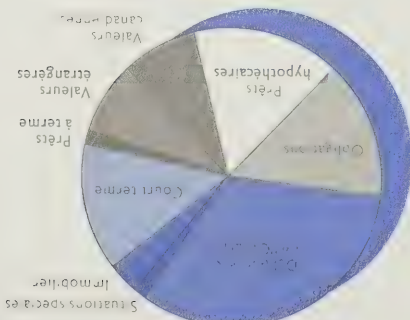
toutes les grandes catégories de notre portefeuille

de placement se sont situés nettement au-dessus

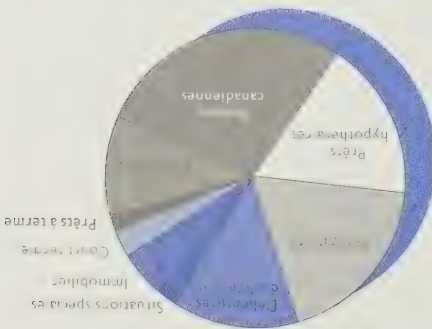
du taux d'inflation de 4,2 % indiqué par l'Indice

canadien des prix à la consommation en 1986.

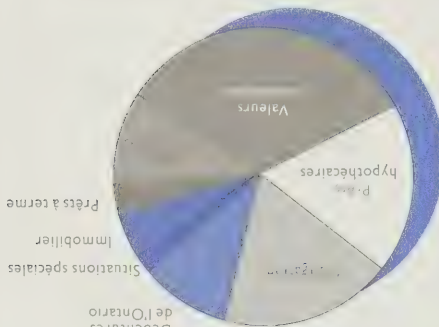
EVOLUTION DE LA COMPOSITION DE L'ACTIF



1981



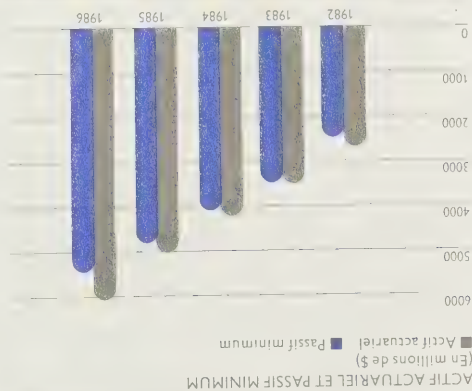
1986



1990

* Basé sur la croissance prévue de l'actif total en fonction de la valeur des débiteurs de l'Ontario non négociables.

Il convient en particulier de noter en 1986 l'excédent de provisionnement de 568,6 millions de dollars. Au cours des années, l'actif actuariel du OMERS a atteint ou dépassé le passif minimum (ou les exigences de provisionnement) établi par les actuaires.



En 1986, l'actif actuariel dépassait le passif minimum par une marge plus large, la caisse OMERS étant dans une position solide pour faire face à la réforme possible des retraites.

Les excédents de provisionnement, stimulés ces dernières années par la frénésie des activités sur les marchés des capitaux internationaux, ont permis d'apporter des améliorations régulières aux prestations. Depuis 1980, les prestations de base ont progressé de 4,3 % par an en moyenne tandis que les prestations au conjoint ont été renforcées et rendues plus équitables et que les dispositions de retraite anticipée ont été élargies. Rien qu'en 1986, les retraites ont été relevées de 6 1/2 % et une « règle des 85 » a été introduite, comme le signal le précédent du Conseil dans son rapport.

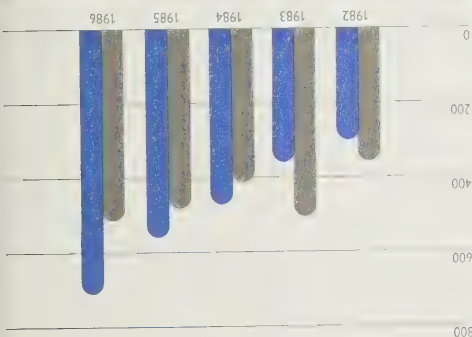
Un confortable volant de sécurité est plus important que jamais aujourd'hui en cette période de réforme des retraites. La nouvelle Loi sur les régimes de retraite pourrait bien imposer de nouvelles exigences de provisionnement et l'indexation pour les pensionnés actuels et futurs pourrait prendre

PROGRAMME DE PLACEMENT

La performance de placement du OMERS a stimulé la croissance de la caisse de retraite au cours des dernières années. En fait, depuis 1984, le total du revenu de placement a dépassé les cotisations des employés et des employeurs. Cette performance a permis au OMERS d'apporter des augmentations spéciales et d'autres améliorations aux prestations de retraite sans relever les cotisations.

REVENU ANNUEL (En millions de \$)

■ Cotisation patronale/salariale ■ Revenu de placement*



* Le revenu de placement comprend le revenu au comptant des intérêts créditeurs, des dividendes, etc., ainsi que les gains réalisés à la vente de valeurs. Ce revenu ne s'applique qu'à la caisse OMERS et ne tient pas compte du revenu des autres régimes gérés par OMERS.

C'est grâce à un portefeuille de placement représentatif très diversifié par région, par secteur industriel et par catégorie d'actif, que l'on a atteint ces rendements. Cette démarche reflète non seulement le climat économique et financier en évolution rapide, mais encore fournit un équilibre entre les

EMPLOYEURS
 À la fin de 1986 on dénombrait 507 municipalités, 132 conseils scolaires et 430 autres conseils locaux participant au OMERS pour un total de 1 069 employeurs participants, soit une augmentation de six employeurs.
 Le OMERS représente un groupement d'employeurs municipaux plus ou moins grands. Plus de la moitié des employeurs participants comptent moins de 25 employés qui sont membres du régime, la moyenne étant de neuf membres chacun. À l'autre extrémité, 59 % des membres sont employés par 63 employeurs qui comptent chacun une moyenne de 1 313 membres.

MEMBRES COTISANTS
 Au cours des dix dernières années, les membres du OMERS sont passés de 106 030 à 140 120. L'activité des membres en 1986 figurait comme suit :

Membres cotisants, 1^{er} janvier 1986 135 098

Membres inscrits en 1986 15 342

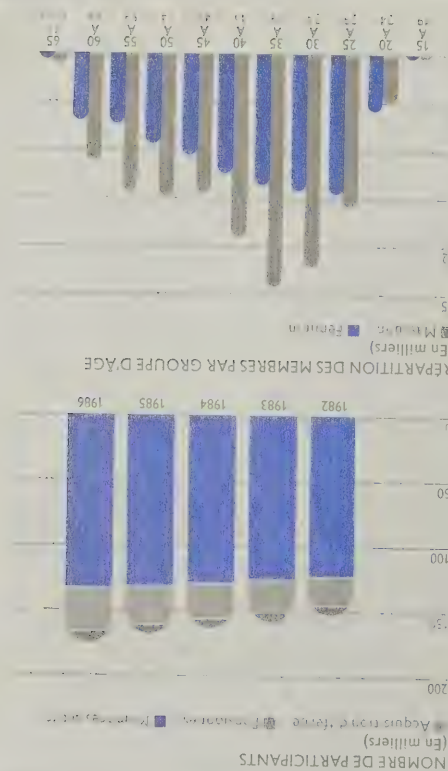
Moins : Cessations d'emploi, mutations, invalidité et décès 7 592

Retraites 2 728

Membres cotisants, 31 décembre 1986 140 120

En 1986, plus de la moitié des membres du OMERS étaient employés par des municipalités, un quart étaient employés par des conseils scolaires et le reste étaient employés par d'autres conseils locaux. Deux membres sur cinq étaient du sexe féminin et un sur huit était dans la police ou les pompiers, corps dans lesquels l'âge normal de la retraite est de 60 ans.

PENSIONNÉS
 Le nombre des pensionnés a continué de croître comme suit
 Pensionnés, 1^{er} janvier 1986 30 881
 Nouveaux pensionnés pendant l'exercice 3 582
 décès de pensionnés 1 090
 autres causes 33
 Pensionnés, 31 décembre 1986 33 340



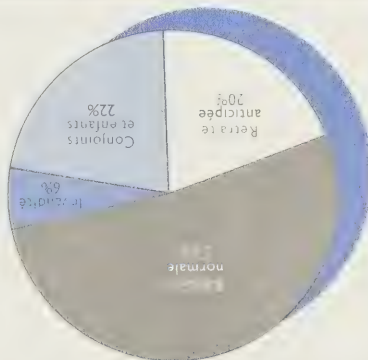
PROGRAMME DE RETRAITE

En 1986 le OMERS a payé au total 133,5 millions de dollars de retraites, soit une hausse de 24 % par rapport à l'exercice précédent.

À la fin de l'exercice, le régime comptait 33 340 pensionnés, soit un accroissement de 8 %. Ce chiffre reflète la croissance constante du nombre des pensionnés au cours des dix dernières années.

En 1986, les prestations de retraite tombaient dans les quatre catégories de base suivantes :

RÉPARTITION DES PRESTATIONS DE RETRAITE 1986



Les prestations versées aux pensionnés pendant un exercice donné ne constituent qu'une partie des obligations du OMERS. On juge de la vigueur de la caisse par sa capacité de satisfaire à ses obligations futures.

Il faut donc étudier les exigences futures des 140 120 cotisants actuels de différents âges qui prendront leur retraite à divers moments. Ce sont là les facteurs qu'examinent les actuaires quand ils font leurs rapports d'évaluation.

La dernière évaluation actuarielle en date, préparée l'an dernier par The Wyatt Company, indique

(En millions de \$)	1986	1985
Engagement actuariel	1 186,9 \$	969,3 \$
Valeur actuelle de :		
Retraites en cours de règlement	1 186,9 \$	969,3 \$
Rentes acquises différées	34,3	32,1
Prestations des cotisants actuels et de leurs survivants	4 172,4	3 750,6
Engagement pour les cotisations volontaires supplémentaires	0,7	0,7
Passif total	5 394,3	4 752,7
Actif de la caisse au 1er janvier	5 962,9	4 980,0
Excédent de provisionnement	568,6 \$	227,3 \$
* Valeur estimée par les actuaires.		

que la situation financière du OMERS est solide et que les taux de cotisations des employeurs et des membres actuels semblent suffisants pour financer les prestations futures.

En préparant l'évaluation, les actuaires ont supposé des augmentations salariales de 6 % par an en moyenne et des bénéfices de la caisse de 7 % par an jusqu'à la retraite d'un membre et de 6 % par la suite. Les actuaires ont également supposé des augmentations annuelles de 5 % des gains maximum ouvrant droit à pension retenus par le Régime de pensions du Canada, soit 25 900 \$ en 1987.

Dans le calcul de l'actif actuariel (qui comprend seulement la caisse du OMERS et non les autres régimes qu'il gère), la plupart des placements sont comparables à leur valeur comptable. Les placements en actions ordinaires et en biens immobiliers sont toutefois comparables à la valeur comptable plus une portion calculée de la plus-value non matérialisée (ou de l'amortissement) pour refléter les tendances à long terme. Ce processus établit la moyenne des valeurs marchandes pour ces placements sur une période de cinq ans, ce qui élimine l'effet de la précarité du marché.

Nous sommes heureux de signaler que la vigoureuse performance du OMERS en 1986 a maintenu et renforcé la situation financière solide de la caisse de retraite. Cette situation permet au OMERS d'assumer sa fonction fondamentale, soit l'offre de prestations de retraite à ses membres actuels et futurs. Conformément au rapport des actuaires, le OMERS est en bonne posture pour satisfaire à ses obligations dans un avenir prévisible.

Au cours de l'exercice, les obligations du OMERS se sont accrues, le nombre des membres cotisant passant de 135 098 en 1985 à 140 120 et le nombre des pensionnés de 30 881 à 33 340.

Les cotisations de retraite, soit 462 millions de dollars, n'ont guère changé par rapport à l'exercice précédent. Les taux des cotisations du OMERS sont intégrés à ceux du Régime de pensions du Canada et reposent sur 7 % du salaire de chaque membre (1 % de plus pour les membres dont l'âge normal de la retraite se situe à 60 ans), les cotisations étant partitaires pour le membre et l'employeur. Pour le troisième exercice de suite, le revenu de placement a surpassé les cotisations de retraite. Ce revenu, soit 819 millions de dollars, contre 651 millions de dollars en 1985, a progressé de 26 %. Par rapport aux normes observées dans l'industrie, le rendement du OMERS est resté supérieur à la moyenne. Au cours des cinq derniers exercices, le taux composé de rendement de la caisse s'est élevé à 19 % par an contre un rendement médian SEI de 17,4 %.

Grâce au rendement obtenu au cours des années et à une solide planification financière, le OMERS a pu apporter des améliorations constantes aux prestations de retraite. En 1986, les retraites ont été relevées de 6 1/2 % pour cent, l'augmentation la plus importante depuis 1975.

Par ailleurs, nous avons introduit pour les membres dont l'âge normal de la retraite est de 60 ans, une « règle des 85 » qui leur permet de prendre une retraite anticipée. Cette règle met ces membres sur un pied d'égalité avec ceux dont l'âge normal de la retraite est de 65 ans, qui eux sont admissibles à faire une demande selon la règle des 90.

La valeur marchande de la caisse de retraite a sensiblement progressé au cours des dernières années. À la fin de 1986, elle s'élevait à 8,2 milliards de dollars, contre un peu moins de 7 milliards de dollars en 1985.

En un peu plus de vingt ans, le OMERS est devenu l'une des plus importantes caisses de retraite au Canada. Mais cette croissance rapide a obéi à des principes de gestion prudents. Nous passons constamment en revue les politiques et établissons des buts pour assurer que les placements sont bien équilibrés et diversifiés — pour les protéger contre les baisses que subissent des régions et des secteurs industriels. En 1986, nous nous sommes une fois de plus rapprochés de ces buts.

Si nos préoccupations essentielles sont la vigueur et la performance de la caisse, ainsi que l'administration efficace des retraites, le conseil d'administration est lui aussi très conscient des responsabilités sociales du OMERS. Nous sommes donc fiers de l'importante contribution que le OMERS a apportée à l'Ontario et au Canada au fil des ans par des placements solides qui ont aidé à stimuler la croissance économique, à créer des emplois, à financer l'expansion des entreprises et à soutenir la petite entreprise.

En 1986, le OMERS a maintenu des résultats impressionnants dans ce domaine. Pour ne citer qu'un des nombreux placements importants effectués en Ontario au cours de l'exercice, le OMERS a achevé les travaux du square de la Constitution d'Ottawa, grand projet d'aménagement immobilier qui a contribué à faire revivre le centre-ville.

L'autre projet immobilier majeur d'été mériterait une mention spéciale. En 1986, le OMERS a acheté et terminé une nouvelle tour de bureaux au numéro Un de l'avenue University à Toronto, immeuble qui abrite maintenant notre siège social ainsi qu'un certain nombre d'autres locataires. C'est de ce nouveau point stratégique que le personnel du OMERS s'apprête à servir les membres pendant un nouvel exercice.

Au nom du Conseil d'administration,
Le président du Conseil,

E.M. Beckstead

C.M. Beckstead
Le 24 avril 1987

RÉGIME DE RETRAITE DES EMPLOYÉS MUNICIPAUX DE L'ONTARIO

Le régime de retraite des employés municipaux de l'Ontario (Ontario Municipal Employees Retirement Board-OMERS), constitué il y a près de 25 ans par une loi de l'Assemblée législative de l'Ontario, est une caisse de retraite desservant des groupes diversifiés d'employés des pouvoirs publics locaux.

Outre 1 069 municipalités, commissions et conseils scolaires locaux, le OMERS assure la gestion des régimes de retraite de l'Institut polytechnique Ryerson et des collèges d'arts appliqués et de technologie, gestion pour laquelle il perçoit des honoraires.

Le OMERS est entièrement financé par des cotisations partielles des municipalités membres et de leurs employés. Afin de satisfaire à ses obligations vis-à-vis des membres actuels et futurs, le OMERS doit investir ses fonds et en réinvestir le produit avec prudence et efficacité.

Le OMERS est un régime de retraite contributif à prestations déterminées, mais au cours des années, les prestations de retraite ont fait l'objet d'augmentations spéciales et d'améliorations sans relèvement des cotisations versées par les membres et les employeurs. Ceci grâce à une planification financière

cière solide et stable et à la vigoureuse performance des placements du OMERS que ces améliorations ont pu être apportées.

Les fonds du OMERS sont actuellement investis dans un portefeuille très diversifié de placements du marché des capitaux, notamment des titres de participation, des obligations, des titres du marché monétaire à court terme, des hypothèques, des biens immobiliers, des prêts à terme et des capitaux de risque.

Le OMERS est géré par une Commission dont les onze membres sont nommés par le lieutenant-gouverneur en conseil sur recommandation du Trésorier de l'Ontario. Cette Commission est unique en son genre dans le monde des retraites, la majorité de ses membres étant des employés des pouvoirs publics locaux qui cotisent au régime. Parmi les autres membres figurent des représentants élus ou nommés des municipalités et des conseils locaux des municipalités. Le OMERS est donc géré par des employeurs et des employés des pouvoirs publics locaux, pour eux-mêmes, dans le seul et unique but de produire un revenu de retraite convenable et uniforme moyennant des taux de cotisations stables et raisonnables.

TABLE DES MATIÈRES

Rapport du président du Conseil

Appercu 1986

Bilan

Réserves

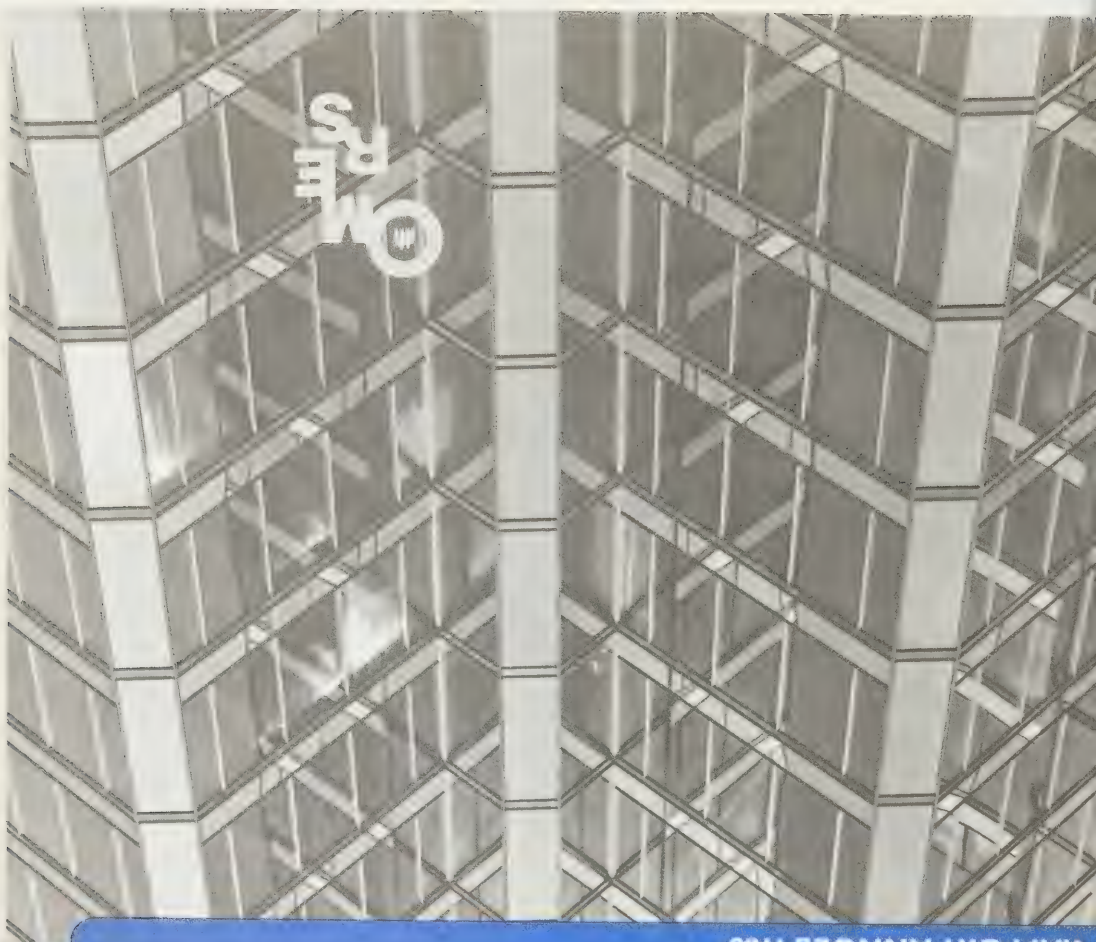
Notes afférentes aux états financiers

Dépenses administratives

Appercu sur cinq ans

Cadres et administrateurs

À propos de la couverture :
Le nouvel immeuble du Un, avenue University à Toronto, où se trouve maintenant le siège du OMERS.



COMMISSION
DE RETRAITE
DES EMPLOYÉS
MUNICIPAUX
DE L'ONTARIO

RAPPORT ANNUEL 1986

Government
Publications

**ONTARIO
MUNICIPAL
EMPLOYEES
RETIREMENT
BOARD**

**ANNUAL
REPORT
1988**

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- AS6



OMERS

UPDATE

Ontario Municipal Employees Retirement Board

IN THIS ISSUE:

- Benefits for members
- Challenges for fund management

PENSION REFORM

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

Established in 1962 by an Act of the Ontario Legislature, the Ontario Municipal Employees Retirement System is a pension fund serving a diversified membership of employees of local government.

In addition to 1,098 municipalities, local boards and schoolboards, OMERS also manages the pension plans of Ryerson Polytechnical Institute and the Colleges of Applied Arts and Technology on a management fee basis.

OMERS is financed by equal contributions from member municipalities and their employees. To meet its obligations to present and future members, OMERS must invest their funds and reinvest the returns prudently and effectively.

OMERS is a contributory defined benefit plan, but ad hoc increases and improvements to retirement benefits have been made over the years without any increase in member and employer contribution levels. These improvements to the pension benefits were made possible by

sound and stable financial planning and because of the strong investment performance of the OMERS Fund.

The OMERS Fund currently is invested in a widely diversified portfolio of capital market investments including equities, bonds, short-term money market securities, mortgages, real estate, term loans and venture capital.

OMERS is managed by a Board whose members are appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Municipal Affairs of Ontario. The majority of the members of the Board are employees of local governments contributing to the Plan. Other members are elected or appointed officials of municipalities and local boards of municipalities and one member is a provincial official. Thus OMERS is managed by and for local government employees and employers with the sole and dedicated purpose of providing an appropriate and uniform retirement income at stable and reasonable contribution rates.

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Chairman's Report

PENSION REFORM SPARKS SWEEPING CHANGES

OMERS faced one of the greatest challenges in its history in 1988 as we began to implement the sweeping changes sparked by pension reform.

The revised Ontario Pension Benefits Act 1987 introduced major and positive changes to OMERS benefits. But change has its costs, and pension reform has introduced greater complexity into pension plans. Implementation has, therefore, posed enormous challenges, because all aspects of OMERS operations were affected — from pension administration to investment strategies, from systems to communications with members.

The new requirements and compliance standards have meant extensive modification of all OMERS systems and procedures. This process is well underway and will continue into 1989.

Members can be assured of the commitment of the OMERS Board and all our employees to making the transition as smooth as possible. But given the magnitude of change to our system and operations, new complexities and additional reporting requirements, there may be occasional delays over the next year or two in our response time. We ask for your patience.

There will certainly be higher administrative costs — we need major additions to staff and computer systems in order to accommodate pension reform.

Furthermore the OMERS investment policy must be revised to accommodate the new "prudent person" rule which states that the Board as administrator of a pension fund shall exercise the care, diligence and skill in the administration and investment of a pension fund that a person of ordinary prudence would exercise in dealing with the property of another person. To comply with this rule we are revising our statement of investment policies and goals for the plan, revising the investment asset mix and appointing additional external managers to handle investments. The asset mix change is being designed to earn higher returns in the long run as we work to help meet the expected higher cost of legislated indexation. Increased use of external managers will help us deal with the accelerating expansion of the investment portfolio in a prudent fashion.

While dealing with the impact of pension reform in 1988, OMERS continued to provide a high level of service to the pensioners and members. Highlights of the year include:

- OMERS' net assets increased 15.4% from \$8.132 billion to \$9.385 billion;
- Contributing members increased to 160,853, and pensioners increased to 38,780;
- Pension contributions increased by 10% to \$549 million;
- OMERS total return on market value of the fund was 12.1% for the year, compared with an outside performance measurement firm's median balanced pension fund return of 10.4%;
- Total investment income, including unrealized annualized capital gains, improved once again, although there was a decline in *realized* investment income reflecting the following factors: an unusually high level of capital gains was realized in 1987 due to the timely sale of stocks prior to the October stock market decline, and a lower than usual proportion of capital gains was realized in 1988 as OMERS switched to a buying mode in stocks to meet our new targets for equity investments in the asset mix;
- Pensions were once again increased by 4.2%, reflecting growth of the consumer price index;
- Pension reform changes were implemented.

As we look ahead, further changes and challenges are in store — including implementation of the indexing portion of pension reform, and pending federal tax reform.

Please be assured of our continued commitment to meeting the challenges on your behalf.



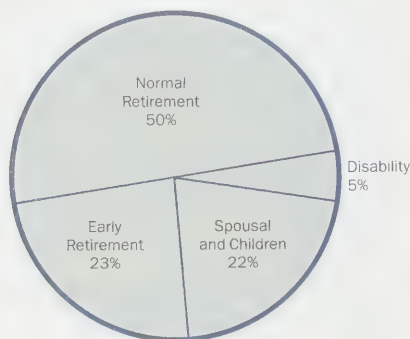
P.R. Burke, Chairman
April 21, 1989.

MEETING THE CHALLENGE OF PENSION REFORM

Through 1988, the OMERS Pension Division continued the demanding work of implementing the changes required by the revised Pension Benefits Act of Ontario, 1987.

This process began in 1987, with the increase in survivors' benefits from 50% to 60%, and with an increase in the rate of interest credited to pension refunds. Also in 1987, OMERS began the process of upgrading the Pension Administration System to accommodate the many changes required for automated benefit processing so as to cope with the complexities and demands of pension reform.

1988 PENSION PROFILE



In 1988 the balance of the pension changes required by the Pension Benefits Act, 1987 were implemented. These included:

- Contributions made after 1986 are now locked-in after two years of membership;
- Interest on member contributions now equals the average of five-year fixed term chartered bank deposit rates — 7.17% in 1988;
- Membership eligibility was extended to new classes of part-time employees;
- The 50% rule was introduced — for the portion of pensions earned after 1986, employer contributions must cover at least 50% of the cost;

- Upon termination a member may transfer the commuted value of the earned pension to a locked-in Registered Retirement Savings Plan or another pension plan;
- New pre-retirement death benefits were introduced;
- Changes were made to the definition of common-law spouse.

During 1988 OMERS pensions were increased by 4.2%, equal to the annual rate of inflation for the previous year. A one-time ad hoc catch-up was granted bringing benefits up to at least 60% of the consumer price increase since these benefits began.

The changes driven by pension reform placed a heavy demand on administration of the System. All procedures, systems and forms, including claims, quotations and member statements, had to be revamped. The old system, built around many claim forms with numerous manual steps, was replaced with an integrated computer-based system.

Automation has made it possible to deal with the complexities of pension reform, but there is still considerable development in store before the system is running smoothly and all information is processed in a timely fashion.

Pension reform placed a heavy demand on OMERS communications resources during 1988. There was extensive revision of most communication materials, including member and pensioner handbooks, the OMERS Act and Regulations, the slide show and pre-retirement planning seminar materials. It also required a great deal of extra effort on the part of Pension Division staff to communicate pension reform changes through the OMERS Update and employer letters, as well as direct contact with members through telephone calls and personal letters.

The OMERS 1988 actuarial valuation, prepared by The Wyatt Company, indicates that the current financial position of the Fund and current contribution levels are more than sufficient to provide for the OMERS plan benefits at their current level, including all changes resulting to date from pension reform, but not necessarily including a contractual inflation provision (i.e. a provision for indexing) as will be required in the future.

(\$ millions)

As at January 1

	1988	1987
Actuarial valuation results		
Actuarial assets	\$8,249.7	\$7,068.4
Actuarial liabilities	7,719.3	6,466.7
Funding excess	\$ 530.4	\$ 601.7

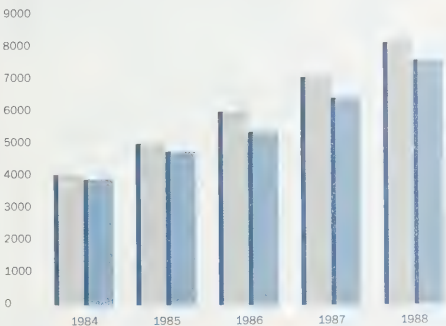
As valued by the actuary

The results of the January 1988 valuation include the costs of pension reform and other improvements to date, estimated at \$300 million.

ACTUARIAL ASSETS VS MINIMUM LIABILITIES

(\$ millions)

■ Actuarial Assets ■ Minimum Liabilities



As shown in the chart, the OMERS plan continues to have a reasonable funding excess. This fact, attributable to continuing better than-expected investment performance, permitted another ad hoc increase to pensions during the year of 4.2%, equal to the full increase in inflation, for the fourth consecutive year. This resulted in additional liabilities of \$81.4 million which were funded out of the funding excess reducing this amount to \$449.0 million.

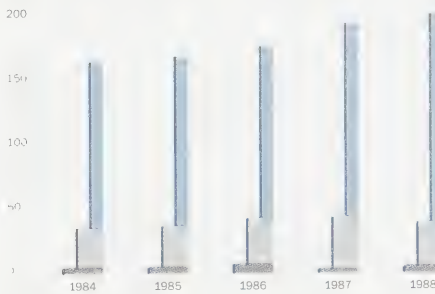
The Pension Division also manages the pension plans of Ryerson Polytechnical Institute and of the Ontario Colleges of Applied Arts and Technology (CAAT), pursuant to Section 16 of the OMERS Act. The net asset market value of these two funds has now reached

\$104.5 million and \$1,122.2 million respectively. The Ryerson plan now has 1,370 members, and 200 pensioners who received benefits of \$1.4 million in 1988. The CAAT plan has 17,451 members, and 2,153 pensioners who received \$12.1 million in 1988.

NUMBER OF PARTICIPANTS IN OMERS PLAN

(Thousands)

■ Deferred Vested ■ Pensioners ■ Actives

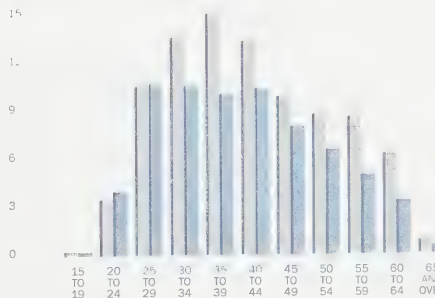


The number of participants has continued to grow since inception.

MEMBER CLASSIFICATION BY AGE GROUPING

(Thousands)

■ Males ■ Females



Investment Program

INVESTING FOR THE FUTURE

For the Investment Division, the two major challenges emerging from pension reform are:

- to ensure that returns on the fund's investments grow sufficiently to cover expanding liabilities relating to future benefits;
- complying with new regulations in the Pension Benefits Act — including the application of the prudent person rule, substantial revision of our Statement of Investment Policies and Goals, new reporting and disclosure requirements, and annual review of the policy statement.

The Division made considerable progress in these areas during an extraordinarily busy year. One of the major accomplishments of 1988 was completion of a thorough review of asset mix alternatives to meet OMERS' projected liabilities for the future, and the development of new long-term asset mix targets. These targets, which have been approved by the Board, are as follows:

- 30% fixed income investments (including short-term);
- 55% equities (including special situations);
- up to 15% real estate properties.

These new targets mean that we are increasing the emphasis on the *equities and real estate* portions of the fund. In addition to increasing the prospect of consistently higher returns, this shift should also make the fund more responsive to inflation and the resulting implications of indexation.

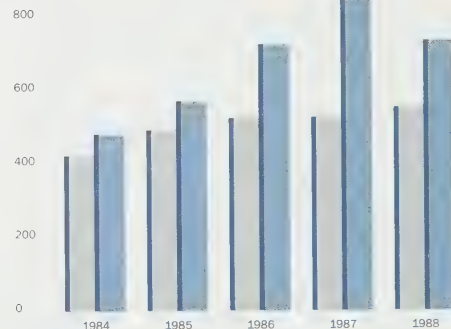
While these changes were being addressed, the OMERS Fund had another strong year in 1988. After adjustments for net contributions and income, the Fund reported an overall return of 12.1% for the year, versus 5.8% in 1987. This return compares favourably with the SEI median return of 10.4% for balanced pension funds.

As you will see from the chart, investment income declined somewhat — but only because the 1987 figure was disproportionately high as it included large realized capital gains taken prior to the October 1987 stock crash. That crash had created a climate of uncertainty about the future, with many forecasters projecting an economic downturn in 1988. In fact, the year was one of pleasant surprises from an economic perspective:

- because of our new objectives OMERS invested heavily in stocks during 1988 and was able to take advantage of the market upswing;

ANNUAL INCOME
(\$ millions)

□ Employer/Employee Contributions ■ Investment Income*



*Investment income includes cash income from interest, dividends etc., plus gains realized upon sale of securities. It pertains to OMERS fund only and does not include income from other plans managed by OMERS.

- the Canadian economy grew an estimated 4% in real terms, matching its 1987 growth pace;
- 275,000 new (mostly full-time) jobs were created in Canada, lowering unemployment to 7.6% of the workforce from 8.1% at the beginning of the year;
- consumer price-inflation remained under relative control, easing to 4.1% (4.4% in 1987) despite increasingly tight labour markets and high levels of industrial activity.

Interest rates rose, however, particularly on short-term funds (the Canadian prime rate rose 2-1/2 percentage points).

Internationally, the major industrialized countries experienced similarly healthy rates of growth, with relatively low inflation. As a result, there was an expansion of global trade, despite ongoing international disputes.

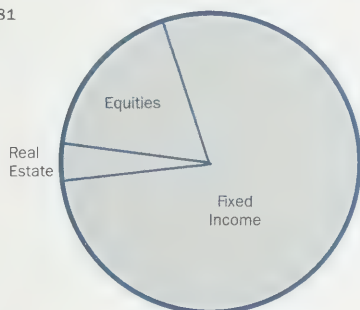
For the year ahead, the economic environment is somewhat uncertain. However, OMERS policy of a broadly-diversified Fund among many investment categories affords a good measure of protection against changes in the economy — and good prospects for meeting the long-term challenges of pension reform.

1988 Investment Highlights

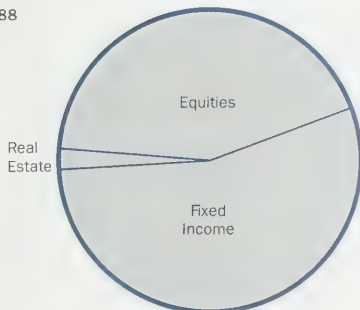
RECORD EQUITY PURCHASES

EVOLUTION OF ASSET MIX

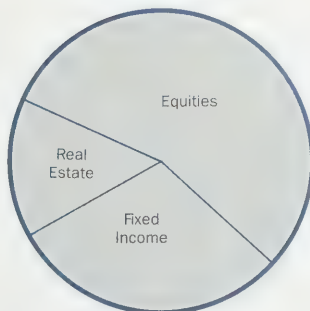
1981



1988



TARGET



Equities includes Canadian equities, foreign equities, special situations and mutual funds.

Fixed income includes bonds, debentures, mortgages, term loans and short-term.

Equities

Having completed a major review of its future liabilities, OMERS decided to increase its equity ratio in 1988 and accordingly invested an unprecedented \$950 million in equities during the year (including a record \$462 million in the fourth quarter). This, together with the market increase in 1988, raised marketable equities to \$4.4 billion or 42.7% of total assets compared with \$3.1 billion or 34.9% at the end of 1987. During 1988, total realized capital gains from equities amounted to \$74 million — compared to the record \$258 million in 1987.

The return on Canadian equity investments was 17.1% during the year, compared with 10.8% for the Toronto Stock Exchange 300 Composite Total Return Index and 13.3% for the median fund measured by SEI Fund Evaluation Services.

During the last five years the return on Canadian equity investments was 10.6% compared with 9.9% for the median fund. Foreign equity returns were a more modest 7.0% in 1988, although over five years those returns have been much more attractive at 14.4% compared with the median of 14.0%. Over long periods of time (20 years plus) it is expected that equities will produce higher returns than fixed income assets and will provide a better match for the Fund's long term liability structure.

Bonds

We were able to take advantage of an inverted yield curve (higher short-term than long-term rates) and reduced the average term of our bond portfolio from 8.7 to 7.1 years, while at the same time increasing our average yield from 10.5% to 11.0%. In the process, OMERS realized almost \$20 million in capital gains and earned a total return of 10.7%, exceeding the ScotiaMcLeod Universe return by 0.5%. Over the last five years our bond return was 13.2% compared with 12.9% for the median bond fund.

As we now have 30% of the bond portfolio, or \$600 million, maturing within two years, this should help to ease the transition to a heavier proportion of equity and real estate in the asset mix.

Mortgages

As at December 31, 1988, the market value of the funded portfolio exceeded \$1.9 billion, showing an unrealized market gain of \$38 million. The portfolio's time-weighted rate of return on market value for 1988 was 10.2% and averaged 13.1% over the most recent five year period. The quality of the portfolio remains very high, with loans 90 days or more in arrears representing a mere 0.3% of the total invested portfolio.

Term Loans

In 1988, the Term Lending portfolio increased in size from \$215 million at the end of 1987 to \$248 million by year end 1988. The portfolio's rate of return was 10.9% for one year ended December 31, 1988 and 14.2% over the last five years.

The quality of the loan portfolio, which provides term financing to small to medium sized Canadian corporations, remains high resulting in continued expectations of good investment returns and security.

Special Situations

This portfolio represents investments into venture capital, oil and gas properties, and private placements into equities of corporations providing the Fund with opportunities for superior long term returns.

In 1988, the portfolio increased in size from \$244 to \$267 million. This net increase resulted from new investments during the year of \$43.5 million, less \$16.2 million in return of capital and sales of investments, notably our position in ONEX Food Services Inc.

Overall, the rate of return on the Special Situations portfolio was 7.7% for one year ended December 31, 1988 and 9.9% over the last five years.

Real Estate

In 1988, the Real Estate portfolio increased in size from approximately \$367 million at the end of 1987 to

\$482 million by year end 1988. This increase is due primarily to the acquisition of two properties: the Honeywell Centre in North York (acquired in February); and the purchase from BCE Developments in August of a 40% interest in Phase 1 of BCE Place — the Canada Trust Tower — in the financial core of downtown Toronto at Bay and Front Streets.

The total return for the real estate portfolio for the year ended December 31, 1988 was 16.0%, and 10.6% over the last five years.

During the early phase of developing income-producing real estate, the returns can be held back, but as the properties are leased, returns are enhanced. In 1988, this factor helped contribute to the improved total return.

Total Returns

The following chart shows the total returns by major asset class as at December 31, 1987 and 1988 and also over the five year period from 1984 to 1988.

	Total Return*		
	1988	1987	1984-1988
	%	%	%
Ontario debentures	10.6	4.0	14.4
Marketable bonds	10.7	4.5	13.2
Mortgages	10.2	9.6	13.1
Term loans	10.9	14.0	14.2
Canadian stocks	17.1	4.3	10.6
Foreign stocks	7.0	(2.4)	14.0
Special situations	7.7	16.5	9.9
Real estate	16.0	10.2	10.6
Total fund	12.1	5.8	12.9

*Including unrealized gains or losses.

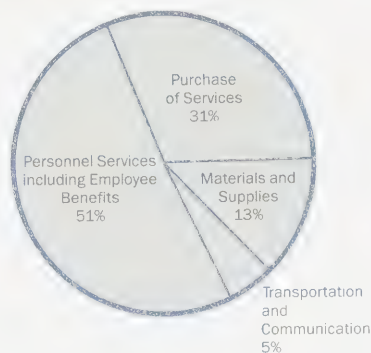
HANDLING THE COSTS OF CHANGE

As indicated in the Chairman's Report, no area of OMERS is untouched by pension reform. New challenges facing the Finance and Administration Division relate to fulfilling its mandate of ensuring cost-efficient operations consistent with providing employers, members and pensioners with a high level of service while ensuring that the systems, personnel and resources are in place to support timely implementation of the new requirements.

Last year we mentioned that pension reform has its costs. After the first year of implementation, the scope of additional costs has become apparent. Administrative expenses are up 27% over 1987, and a substantial portion of the increase was due to pension reform:

- Personnel costs were up by almost 25% reflecting the addition of 23 new staffing positions, including 4 for systems development, 13 in the benefits administration area, 1 in the investment area, 3 in the finance area, and 2 for member communications, to meet the new requirements. By year end, OMERS' staff totalled 169;
- Expenditures for materials and supplies almost doubled largely reflecting the required replacement of all forms, statements, handbooks and related materials required under the Pension Benefits Act;
- Professional services increased, reflecting increased cost of the actuarial valuation, the increased complexity of accounting for the Fund, the implementation of

1988 ADMINISTRATIVE EXPENDITURES



the internal audit function, and the additional cost of actuarial projects as follows:

- re-examining investment assumptions and rate changes;
- legislative changes due to pension reform;
- proposed legislative changes due to tax reform;
- new type 6 supplementary benefits for councillors;
- costing for a different approach to buy backs.

Because of the extra costs generated by pension reform, the Board authorized the pension administrative expenditure guideline to increase from 1.0% to 1.5% of all pension contributions. The guideline to cover investment administrative expenditures remained unchanged at 1/10 of 1% of the amortized cost of capital market securities. In 1988, OMERS administrative expenses were well within these guidelines. OMERS also receives compensation from the Managed Plans as an offset to these expenses.

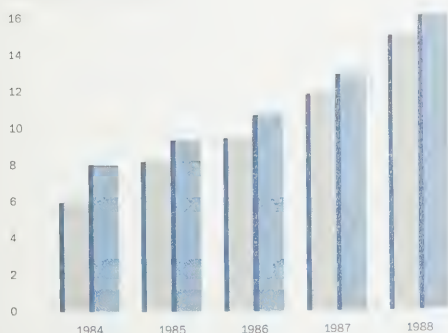
However, administrative costs will continue to rise as Federal and Provincial legislation increases the complexity of OMERS operations. Pension reform has not yet reached its full impact while the implementation of tax reform is pending (designed to provide equal treatment to taxpayers with or without pension plans).

OMERS continues to pursue its objectives of strictly controlling costs and improving productivity to minimize the impact on expenditures of the sweeping changes that are underway.

ADMINISTRATIVE EXPENDITURES

(\$ millions)

□ Actual ■ Guideline



Ontario Municipal Employees Retirement Fund

CONSOLIDATED STATEMENT OF NET ASSETS

December 31 (000's)	1988	1987 (as restated, note 1)
ASSETS		
Investments (notes 1 and 2)	\$10,407,775	\$8,980,243
Long term receivables (note 3)	146,265	153,693
Fixed assets (note 4)	1,349	603
Contributions receivable	47,320	50,763
Accrued income	153,842	102,317
	10,756,551	9,287,619
LIABILITIES		
Due to administered pension funds (notes 1 and 5)	1,222,153	1,040,297
Provision for unreduced early retirement benefits (note 6)	117,081	98,554
Accounts payable and accrued liabilities	32,575	16,896
	1,371,809	1,155,747
NET ASSETS (notes 1 and 7)	\$ 9,384,742	\$8,131,872

Signed on behalf of the Board



Member



Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31 (000's)	1988	1987 (as restated, note 1)
INCREASES IN NET ASSETS		
Contributions (note 8)	\$ 545,551	\$ 531,072
Investment income (note 9)	715,598	828,359
Unrealized market appreciation (depreciation) of investments (note 1)	248,823	(421,868)
	1,509,972	937,563
DECREASES IN NET ASSETS		
Benefits (note 10)	242,564	205,490
Administrative expenditures (note 11)	14,538	11,302
	257,102	216,792
INCREASE IN NET ASSETS	1,252,870	720,771
Net assets at beginning of year	8,131,872	7,411,101
NET ASSETS AT END OF YEAR	\$9,384,742	\$8,131,872

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1988 (000's)

GENERAL

The Ontario Municipal Employees Retirement System ("OMERS") is registered under the Pension Benefits Act of Ontario, Registration #C006725.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

Certain of the Fund's term loan, real estate and special situation investments are held by wholly owned subsidiaries. The consolidated financial statements include the accounts of the Fund and all subsidiaries.

Investments

Investments are stated at market value and are recorded as of the trade date. Market value is determined using listed market values where available. Where listed market values are not available, estimated values are calculated by discounting cash flows based on market yields, using cyclical real estate appraisals, or comparative securities.

Gains and losses on disposal of investments are credited or charged to investment income. Investment income from investments is recorded on the accrual basis.

Contributions

Member and employer contributions received subsequent to the year-end, but which are applicable to the current year, are recorded as receivable.

Benefits

Payments for benefits are recorded in the year in which such payments are made.

Fixed Assets

Computer equipment is recorded at cost and is depreciated on a straight-line basis over five years.

1. CHANGE IN ACCOUNTING POLICY

In 1988, the Fund changed its method of valuing investments from cost to market value. The change has been applied retroactively and accordingly the consolidated statement of net assets at December 31, 1987 and consolidated statement of changes in net assets for the year then ended have been restated.

As a result of this change, investments have been increased by \$599,217 (1987 — \$316,374). This has been allocated to amounts due to administered pension funds (1988 — \$70,282; 1987 — \$36,262) and net assets (1988 — \$528,935; 1987 — \$280,112; 1986 — \$701,980). Unrealized market appreciation of \$248,823 (1987 — depreciation, \$421,868) has been reflected in the statement of changes in net assets.

2. INVESTMENTS

	1988		1987	
	Market Value	Cost	Market Value	Cost
Cash and short term deposits	\$ 251,031	\$ 251,031	\$ 576,881	\$ 576,881
Canadian bonds and debentures	2,812,887	2,966,225	2,692,549	2,821,943
Term loans	247,525	247,649	215,305	212,725
Mortgages	1,906,507	1,863,219	1,751,299	1,691,309
Canadian equities	3,431,066	2,936,588	2,365,768	2,151,342
Non-Canadian equities	772,192	697,535	599,156	525,813
Mutual funds	237,411	195,451	168,831	128,070
Real estate	320,099	266,745	198,040	175,315
Real estate debentures	161,590	124,993	168,869	145,574
Venture capital	94,576	94,443	95,059	88,068
Resource properties	70,615	70,237	57,668	57,668
Private placements	102,276	94,442	90,818	89,161
	\$10,407,775	\$9,808,558	\$8,980,243	\$8,663,869

Canadian bonds and debentures include Province of Ontario debentures having a cost of \$1,293,025 (1987 – \$1,293,025), bearing a weighted average interest rate of 9.07% and maturing at various dates beginning on December 31, 1993 through December 31, 2006.

At December 31, the Fund held individual investments whose market or cost value exceeded 1% of the market or cost value of investments in total:

	Number of Investments	1988 Aggregate	
		Market Value	Cost
Mortgages	1	\$104,039	\$105,000
Canadian equities	3	337,769	226,637
Real estate acquired during the year	1	111,673	111,673
		\$553,481	\$443,310

3. LONG TERM RECEIVABLES

Under the terms of The Ontario Municipal Employees Retirement System Act certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long term receivables to be paid, with interest, over a period not to exceed fifteen years.

4. FIXED ASSETS

	1988			1987
	Cost	Accumulated depreciation	Net	Net
Computer equipment	\$2,404	\$1,055	\$1,349	\$603

5. DUE TO ADMINISTERED PENSION FUNDS

The administered pension funds which form part of the Fund, are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnical Institute, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

6. PROVISION FOR UNREDUCED EARLY RETIREMENT BENEFITS

Certain participating employers have entered into agreements with the Board for provision of unreduced early retirement benefits in addition to those provided by OMERS. Funding is provided by additional contributions. An actuarial valuation is performed every three years. Where actuarial liabilities exceed actuarial assets for individual groups a series of special payments has been established to eliminate the deficiency.

The most recent actuarial valuation was performed at January 1, 1987. On an overall basis the actuarial assets exceeded the actuarial liabilities for the participating groups.

7. NET ASSETS

The Fund is maintained for the payment of pensions to retired members or their beneficiaries and the future payment of pensions and benefits to contributing members and to terminated members who have elected a deferred pension.

The latest actuarial valuation of the System as at January 1, 1988 determined the total actuarial liabilities of the System to be \$7,719,310 using the unit credit actuarial cost method. The actuarially adjusted book value of accumulated assets at that date was \$8,249,718 resulting in a funding excess of \$530,408.

The results of the actuarial valuation indicate that the existing levels of member and employer contributions are sufficient to meet the normal actuarial cost of benefits earned during 1988. Further, the System was fully funded at December 31, 1988.

8. CONTRIBUTIONS

	1988	1987
Members	\$263,023	\$238,902
Employers, current service	262,049	238,049
Employers, repayment of long term receivables (note 3)	19,574	51,649
Unreduced early retirement benefits (note 6)	905	2,472
	<u>\$545,551</u>	<u>\$531,072</u>

9. INVESTMENT INCOME

	1988	1987
Short term deposits	\$ 57,322	\$ 23,907
Canadian bonds and debentures	287,787	276,652
Term loans	27,182	19,455
Mortgages	191,143	182,122
Canadian equities	95,742	77,052
Non-Canadian equities	14,938	15,360
Mutual funds	18,717	36,743
Real estate	14,604	7,958
Real estate debentures	9,414	10,571
Venture capital	306	2,116
Resource properties	3,053	1,732
Private placements	4,459	2,149
	<u>724,667</u>	<u>655,817</u>
Realized capital gains	101,380	291,589
	<u>826,047</u>	<u>947,406</u>
Less income credited to:		
Administered pension funds	(95,775)	(108,422)
Provision for unreduced early retirement benefits	(14,674)	(10,625)
	<u>\$715,598</u>	<u>\$828,359</u>

10. BENEFITS

	1988	1987
Members' pensions	\$208,366	\$165,383
Members' contributions plus interest refunded	31,321	36,337
Transfers to other pension plans	2,877	3,770
	<u>\$242,564</u>	<u>\$205,490</u>

11. ADMINISTRATIVE EXPENDITURES

	1988	1987
Personnel services	\$ 7,829	\$ 6,391
Transportation and communication	716	563
Audit services	202	67
Legal services	129	394
Other professional services	1,254	734
Other purchased services	3,113	2,632
Materials and supplies	2,044	1,194
	15,287	11,975
Less: Management fees from administered pension funds	749	673
	\$14,538	\$11,302

12. COMMITMENTS

Total investment commitments outstanding at December 31, 1988 amounted to approximately \$353 million of which \$175 million relates to mortgages, \$105 million to real estate, \$17 million to term loans and the remaining \$56 million to venture capital and private placements.

13. COMPARATIVE FIGURES

Certain comparative figures for 1987 have been restated to conform with the financial statement presentation adopted for 1988.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Ontario Municipal Employees Retirement Fund are the responsibility of management and have been approved by the OMERS Board.

These financial statements have been prepared by management in accordance with generally accepted accounting principles and the Pension Benefits Act of Ontario. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

In fulfilling its responsibilities, management has developed and is maintaining a system of internal accounting controls designed to ensure that financial records are reliable and that assets are safeguarded.

These financial statements have been examined by OMERS' auditors, Thorne Ernst & Whinney, Chartered Accountants, and their unqualified report is presented herein.

As a pension fund, OMERS also reports the actuarial value of assets and liabilities. This valuation is conducted by The Wyatt Company, an actuarial firm, in accordance with generally accepted actuarial principles. Their report also follows.



A.W. Reeve, Executive Director.
Toronto, Canada
April 21, 1989

AUDITORS' REPORT TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have examined the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1988 and the consolidated statement of changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Fund as at December 31, 1988 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in valuation of investments as described in note 1, on a basis consistent with that of the preceding year.

The consolidated financial statements for the preceding year were examined by other chartered accountants.

Thorne Ernst & Whinney

Chartered Accountants
Toronto, Canada
April 21, 1989

ACTUARIAL COST CERTIFICATE AS AT DECEMBER 31, 1988 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the Ontario Municipal Employees Retirement System was conducted as at January 1, 1988 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The results of the actuarial valuation disclosed total actuarial liabilities of \$7,719.310 million in respect of benefits accrued for service prior to January 1, 1988. The actuarial assets at that date were \$8,249.718 million indicating an actuarial surplus or funding excess of \$530.408 million.

The results of the actuarial valuation also indicated that the existing levels of employee and employer contributions are sufficient to meet the normal actuarial cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the actuarial liabilities during 1988 taking into account the amendments made to the Plan up to December 31, 1988. Further, we have calculated the actuarial assets at December 31, 1988.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1988 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted
THE WYATT COMPANY

Martin J.K. Brown

MARTIN J.K. BROWN,
Fellow, Canadian Institute of Actuaries
April 21, 1989

Ontario Municipal Employees Retirement Fund

OMERS CONSOLIDATED INVESTMENT FUND ASSETS

As at December 31 (000's)	Market Value	
	1988	1987
Debt investments		
Cash — current accounts	\$ 5,114	\$ 6,050
Short term investments	245,917	570,831
Total cash & short term	\$ 251,031	\$ 576,881
Ontario debentures	\$ 1,162,425	\$1,160,888
Marketable bonds		
Government of Canada	\$ 445,961	\$ 406,763
Provincial	536,840	459,692
Municipal	27,270	29,307
Corporate	131,112	153,901
Eurodollar/Index linked	31,616	34,751
Mid term notes	477,663	447,247
Total marketable bonds	\$ 1,650,462	\$1,531,661
Term loans	\$ 247,525	\$ 215,305
Mortgages		
Residential insured — NHA	\$ 1,277,943	\$1,265,609
Commercial — uninsured	448,740	404,622
Bonds	179,824	79,425
Real estate	0	1,643
Total mortgage investments	\$ 1,906,507	\$1,751,299
Total debt investments	\$ 5,217,950	\$5,236,034

As at December 31 (000's)	Market Value	
	1988	1987
Equity investments		
Stocks		
Canadian — direct — core	\$ 3,273,332	\$2,215,302
— growth	107,120	107,682
— managed	117,424	83,322
Foreign — direct	580,712	417,990
— managed	362,081	309,459
Total stocks	\$ 4,440,669	\$3,133,755
Special situations		
Private placements	102,276	90,818
Venture capital	94,576	95,059
Resource investments	70,615	57,668
	267,467	243,545
Total equity	\$ 4,708,136	\$3,377,300
Real estate investments		
Shares	\$ 43,305	\$ 34,682
Fund units	21,005	18,373
Land and buildings	292,435	172,159
Participating bonds	123,314	139,721
Notes receivable	1,630	1,974
Total real estate	\$ 481,689	\$ 366,909
Total equity and real estate	\$ 5,189,825	\$3,744,209
Total market fund	\$10,407,775	\$8,980,243

A more detailed list of investments may be obtained upon request.

The broad investment policy of the Board and the distribution of assets of the Investment Fund at year end is as follows:

Class of Assets	% Policy Range		% Invested	
	New	Previous	Cost	Market
Debt Investments				
Short term			3	2
Ontario Debentures			13	11
Bonds			17	16
Term Loans			2	2
Mortgages			19	19
Total Debt	30	50	54	50
Equity Investments				
Canadian Stocks			30	33
Foreign Stocks			9	9
Special Situations			3	3
Total Equity	55	45	42	45
Real Estate Investments	15	5	4	5
Total Equity & Real Estate	70	50	46	50
Total Investment Fund	100	100	100	100

FIVE YEAR REVIEW OF FINANCIAL DATA

(000)	1988	1987	1986	1985	1984
*Investments at cost					
Provincial debentures	\$ 1,293,025	\$1,293,025	\$1,293,025	\$1,293,025	\$1,293,025
Marketable securities	8,515,533	7,370,844	6,120,540	4,980,987	3,988,824
	\$ 9,808,558	\$8,663,869	\$7,413,565	\$6,274,012	\$5,281,849
*Provision for					
OMERS plan benefits	\$ 8,855,808	\$7,851,760	\$6,709,121	\$5,706,521	\$4,814,414
Unreduced early retirement benefits	117,081	98,554	86,867	76,579	66,875
Administered pension funds	1,151,871	1,004,035	846,818	713,283	597,789
	\$10,124,760	\$8,954,349	\$7,642,806	\$6,496,383	\$5,479,078
Investment income realized					
OMERS plan benefits	\$ 715,598	\$ 828,359	\$ 716,545	\$ 569,377	\$ 457,582
Unreduced early retirement benefits	14,674	10,625	9,690	8,289	7,036
Administered pension funds	95,775	108,422	92,852	73,707	60,060
	\$ 826,047	\$ 947,406	\$ 819,087	\$ 651,373	\$ 524,678
Contributions received					
OMERS plan benefits	\$ 525,072	\$ 476,951	\$ 437,076	\$ 405,301	\$ 380,769
Long term receivables repayment	19,574	51,649	20,917	59,311	21,329
Unreduced early retirement benefits	4,820	3,581	3,998	4,127	3,172
	\$ 549,466	\$ 532,181	\$ 461,991	\$ 468,739	\$ 405,270
Payments to members					
Pensions paid	\$ 208,366	\$ 165,383	\$ 133,539	\$ 108,092	\$ 86,858
Contributions and interest refunded	31,321	36,337	30,635	27,094	23,377
Transfers to other plans	2,877	3,770	2,238	1,515	1,548
	\$ 242,564	\$ 205,490	\$ 166,412	\$ 136,701	\$ 111,783
Administrative expenditures and recoveries					
Pension program					
Gross	\$ 8,438	\$ 5,561	\$ 4,202	\$ 3,573	\$ 3,461
Fee recoveries	749	673	617	565	505
Net	\$ 7,689	\$ 4,888	\$ 3,585	\$ 3,008	\$ 2,956
Investment program	6,849	6,414	5,300	4,627	2,656
	\$ 14,538	\$ 11,302	\$ 8,885	\$ 7,635	\$ 5,612
Total Fund annual rates of return					
Dollar-weighted return on book value	9.1%	12.2%	12.4%	11.7%	11.2%
Time-weighted return on market value	12.1%	5.8%	13.0%	23.6%	11.0%
Unaudited figures					

*The amount shown for each year as at December 31 is cumulative and does not reflect unrealized gains.

FIVE YEAR REVIEW OF SELECTED DATA

	1988	1987	1986	1985	1984
*Employers					
Municipalities	526	512	507	504	493
School boards	133	133	132	133	133
Other local boards	439	432	430	426	426
	1,098	1,077	1,069	1,063	1,052
*Members contributing, employed by					
Municipalities	81,146	74,824	71,703	69,469	67,024
School boards	43,093	38,373	36,158	34,568	33,253
Other local boards	36,614	33,628	32,259	31,061	30,168
	160,853	146,825	140,120	135,098	130,445
*Members contributing					
Female	69,678	60,579	56,252	52,880	50,005
Male	91,175	86,246	83,868	82,218	80,440
	160,853	146,825	140,120	135,098	130,445
*Normal retirement age 65	142,348	129,292	122,952	116,937	112,704
*Normal retirement age 60	18,505	17,533	17,168	18,161	17,741
	160,853	146,825	140,120	135,098	130,445
*Terminated members who have elected a deferred pension	5,052	3,908	3,688	3,805	3,786
*Number of pensioners by type of pension					
Normal retirement	18,955	18,197	17,291	16,358	15,218
Early retirement	8,996	7,823	6,611	5,719	4,841
Disability retirement	2,128	2,025	1,940	1,843	1,705
Spouses and children	8,701	8,101	7,498	6,961	6,387
	38,780	36,146	33,340	30,881	28,151
*Total membership comprising Contributing members, deferred pensions and pensioners	204,685	186,879	177,148	169,784	162,382
Number of members enrolled each year	23,208	18,856	15,563	14,694	11,436
Number of members terminated each year	9,180	12,151	10,541	10,041	8,840
Net increases in membership	14,028	6,705	5,022	4,653	2,596

Unaudited figures

*Cumulative totals at year-end

OFFICERS AND DIRECTORS

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD as at December 31, 1988

Mr. C. M. Beckstead, *Chairman,*
Chief Administrative Officer, City of Nepean

Mr. P. R. Burke, *Vice-Chairman,*
Firefighter, City of Windsor

Mr. S. P. Dobbin,
Stationary Engineer,
Toronto Board of Education

Mr. T. D. Allan,
Police Officer, Durham Regional Police Force

Mr. T. A. Arkeveld,
Supt. of Business and Treasurer,
Leeds & Grenville County Board of Education

Mr. C. R. Bernardi,
Director of Personnel and Labour Relations,
City of Sault Ste. Marie

Mr. L. J. Close,
Director, Municipal Finance Branch,
Ministry of Municipal Affairs

Miss D. F. Graber,
Administrative Supervisor, Department of Roads and
Traffic, Municipality of Metropolitan Toronto

Mr. A. J. Roberts,
Consumer Relations Representative,
St. Catharines Hydro Electric Commission

Mr. B. Sinclair,
Mayor, City of Etobicoke

SENIOR STAFF

Mr. A. W. Reeve,
Executive Director

Mr. R. Silcox,
Director, Investment Division

Mr. M. Beswick,
Director, Pension Division

Mr. A. Trafford,
Director, Management Policies

Ms. J. Bevan
Director, Human Resources

INVESTMENT POLICY COMMITTEE OF THE BOARD as at December 31, 1988

Mr. R. M. MacIntosh, *Chairman,*
Canadian Banker's Association

Mr. J. C. C. Wansbrough, *Vice-Chairman,*
The National Trust Company

Mr. D. Pretty,
Pretty Consultants Inc.

Mr. J. B. Purdy,
Crown Life Insurance Co.

Mr. C. M. Beckstead,
Chairman of the Board

Mr. A. J. Roberts,
Member of the Board

Mr. S. P. Dobbin,
Member of the Board

Mr. A. W. Reeve,
Executive Director

Mr. R. Silcox,
Director, Investment Division

ADVISORS TO THE BOARD

Mr. M. J. K. Brown,
The Wyatt Company, Actuary

Dr. Chris West,
Medical Advisor

Mr. Maurice Coombs,
Osler, Hoskin & Harcourt, Legal Advisor

Mr. R. M. Freeborough,
Thorne Ernst & Whinney
External Auditors

Mr. C. Stuart Hartley
BDO Ward Mallette
Internal Auditors

One University Avenue, Suite 1000
Toronto, Ontario M5J 2P1
(416) 369-2400

I, University Avenue, Bureau 1000
Toronto (Ontario) M5J 2P1
(416) 369-2400

COMMISSION DE RETRAITE DES EMPLOYÉS
MUNICIPALUX DE L'ONTARIO

au 31 décembre 1988

M. C. M. Beckstead, *Président du Conseil,*
Administrateur en chef, ville de Népéan

M. P. R. Burke, *Vice-président du Conseil,*
Pompier, ville de Windsor

M. S. P. Dobbin,
Technicien-machines,
Conseil scolaire de Toronto

M. T. D. Allan,
Agent de police, Police régionale de Durham

M. T. A. Arkeveld,
Surintendant des activités et trésorerie,
Conseil scolaire du comté de Leeds et Grenville

M. C. R. Bernardi,
Chef du personnel et des relations du travail,
Ville de Sault-Sainte-Marie

M. L. J. Close,
Administrateur, Direction des finances municipales,
ministère des Affaires municipales

Mlle D. F. Graber,
Responsable administrative, Service de la voirie et
de la circulation, Communauté urbaine de Toronto

M. A. J. Roberts,
Représentant des relations avec les consommateurs,
Commission hydroélectrique de St. Catharines

M. B. Sinclair,
Maire, Ville d'Etobicoke

PERSONNEL CADRE

M. A. W. Reeve,
Directeur exécutif

M. R. Sillico,
Directeur, division des placements

M. M. Beswick,
Directeur, division des retraites

M. A. Traflet,
Directeur, pratiques de gestion

Mme J. Bevan
Directrice, ressources humaines

COMITÉ DIRECTEUR DES PLACEMENTS
DE LA COMMISSION

au 31 décembre 1988
M. R. M. MacIntosh, *Président du Conseil,*
Association des banquiers canadiens

M. J. C. C. Wansbrough, *Vice-président du Conseil,*
Compagnie du Trust National

M. D. Pretty,
Pretty Consultants Inc.

M. J. B. Purdy,
Compagnie d'assurance-vie Crown Life

M. C. M. Beckstead,
Président du Conseil

M. A. J. Roberts,
Membre du Conseil

M. S. P. Dobbin,
Membre du Conseil

M. A. W. Reeve,
Directeur exécutif

M. R. Sillico,
Directeur, division des placements

CONSEILLERS DE LA COMMISSION
M. M. J. K. Brown, F.I.A., F.C.I.A.

La Compagnie Wyatt, actuariaire

Dr. Chris West,
Conseiller médical

M. Maurice Coombs,
Oster, Hoskin & Harcourt, conseiller juridique

M. R. M. Freeborough,
Thorne Ernst & Whimney
Vérificateurs

M. C. Stuart Hartley,
BDO Ward Mallett
Vérificateurs internes

APERÇU DU RÉGIME SUR CINQ ANS

1984	1985	1986	1987	1988
* Employeurs				
493	504	507	512	526
133	133	132	133	133
426	426	430	432	439
* Municipalités				
67 024	69 469	71 703	74 824	81 146
33 253	34 568	36 158	38 373	43 093
30 168	31 061	32 259	33 628	36 614
130 445	135 098	140 120	146 825	160 853
* Membres cotisants employés par				
Municipalités				
69 469	71 703	74 824	81 146	89 966
33 253	34 568	36 158	38 373	43 093
30 168	31 061	32 259	33 628	36 614
130 445	135 098	140 120	146 825	160 853
Féminins				
50 005	52 880	56 252	60 579	69 678
80 440	82 218	83 868	86 246	91 175
130 445	135 098	140 120	146 825	160 853
* Age normal de retraite 65 ans				
112 704	116 937	122 952	129 292	142 348
17 741	18 161	17 168	17 533	18 505
130 445	135 098	140 120	146 825	160 853
* Anciens membres qui ont choisi				
une pension différée				
3 786	3 805	3 688	3 908	5 052
* Nombre de pensionnés par type de retraite				
15 218	16 358	17 291	18 197	18 955
4 841	5 719	6 611	7 823	8 996
1 705	1 843	1 940	2 025	2 128
6 387	6 961	7 498	8 101	8 701
28 151	30 881	33 340	36 146	38 780
* Nombre total de membres, y compris				
membres cotisants, pensions différées				
162 382	169 784	177 148	186 879	204 685
11 436	14 694	15 563	18 856	23 208
8 840	10 041	10 541	12 151	9 180
2 596	4 653	5 022	6 705	14 028
Augmentation nette du nombre des membres				
14 028	4 653	5 022	6 705	14 028
Chiffres non vérifiés				
* Totaux cumulatifs à la fin de l'année				

APERÇU FINANCIER DES CINQ DERNIÈRES ANNÉES

(en milliers de dollars)	1988	1987	1986	1985	1984
*Placements au prix coûtant	1 293 025 \$	1 293 025 \$	1 293 025 \$	1 293 025 \$	1 293 025 \$
Titres négociables	8 515 533	7 370 844	6 120 540	4 980 987	3 988 824
*Provision pour	9 808 558 \$	8 663 869 \$	7 413 565 \$	6 274 012 \$	5 281 849 \$
Prestations de la caisse OMERS	8 855 808 \$	7 851 760 \$	6 709 121 \$	5 706 521 \$	4 814 414 \$
Prestations non réduites	117 081	98 554	86 867	76 579	66 875
de retraite anticipée	1 151 871	1 004 035	846 818	713 283	597 789
Régimes de retraite administrés	10 124 760 \$	8 954 349 \$	7 642 806 \$	6 496 383 \$	5 479 078 \$
Revenu de placement réalisé	715 598 \$	828 359 \$	716 545 \$	569 377 \$	457 582 \$
Prestations de la caisse OMERS	14 674	10 625	9 690	8 289	7 036
Prestations non réduites	95 775	108 422	92 852	73 707	60 060
Régimes de retraite administrés	826 047 \$	947 406 \$	819 087 \$	651 373 \$	524 678 \$
Cotisations reçues	525 072 \$	476 951 \$	437 076 \$	405 301 \$	380 769 \$
Remboursement à long terme à recevoir	19 574	51 649	20 917	59 311	21 329
Prestations non réduites	4 820	3 581	3 998	4 127	3 172
de retraite anticipée	549 466 \$	532 181 \$	461 991 \$	468 739 \$	405 270 \$
Versements aux membres	208 366 \$	165 383 \$	133 539 \$	108 092 \$	86 858 \$
Retraites versées	31 321	36 337	30 635	27 094	23 377
Remboursement de cotisations et d'intérêt	2 877	3 770	2 238	1 515	1 548
Transferts à d'autres régimes	242 564 \$	205 490 \$	166 412 \$	136 701 \$	111 783 \$
Depenses administratives et recouvrement	8 438 \$	5 561 \$	4 202 \$	3 573 \$	3 461 \$
Montant brut	749	673	617	565	505
Recouvrement d'honoraires	7 689 \$	4 888 \$	3 585 \$	3 008 \$	2 956 \$
Montant net	6 849	6 414	5 300	4 627	2 656
Régime de placement	14 538 \$	11 302 \$	8 885 \$	7 635 \$	5 612 \$
Taux de rendement annuels du total de la caisse	9,1%	12,2%	12,4%	11,7%	11,2%
Rendement monétaire sur valeur comptable	12,1%	5,8%	13,0%	23,6%	11,0%
Rendement interne sur valeur marchande					
Chiffres non vérifiés					

* Le montant indiqué chaque année au 31 décembre est cumulatif et ne tient pas compte des gains non réalisés.

À la fin de l'année, la diversification et la distribution de l'actif des fonds de placement de la Commission s'établissaient comme suit :

Catégorie d'actif	Pourcentage		Nouveau %		Titres de créance
	Prix	Cours	recommandé	Ancien	
Court terme	3				2
Débitures de l'Ontario	13				11
Obligations	17				16
Prêts à terme	2				2
Prêts hypothécaires	19				19
Total des titres de créance	54			50	50
Titres de participation					
Actions canadiennes	30				33
Actions étrangères	9				9
Situations spéciales	3				3
Total des titres de participation	42		45		45
Placements immobiliers	4		5		5
Total des titres de participation et des placements immobiliers	46		50		50
Total des fonds placés	100		100		100

Le 31 décembre (en milliers de \$)		1988	1987
Titres de participation			Valeur marchande
Actions			
canadiennes — directes — base		3 273 332	2 215 302
— croissance		107 120	107 682
— gérées		117 424	83 322
étrangères — directes		580 712	417 990
— gérées		362 081	309 459
Total des actions		4 440 669	3 133 755
Situations spéciales		102 276	90 818
Placements privés		94 576	95 059
Capital de risque		70 615	57 668
Placements de ressources		267 467	243 545
Total des titres de participation		4 708 136	3 377 300
Placements immobiliers			
Actions		43 305	34 682
Parts de fonds		21 005	18 373
Terrains et immeubles		292 435	172 159
Obligations participantes		123 314	139 721
Effets à recevoir		1 630	1 974
Total immobilier		481 689	366 909
Total participations et immobilier		5 189 825	3 744 209
Total des valeurs du marché		10 407 775	8 980 243

Une liste plus détaillée des placements peut être obtenue sur demande.

ACTIF CONSOLIDÉ DES FONDs DE PLACEMENT OMERS

Le 31 décembre (en milliers de \$)		1987
Titres de créance		
Comptant — comptes courants	5 114 \$	6 050 \$
Placements à court terme	245 917	570 831
Total comptant et court terme		576 881 \$
Débentures de l'Ontario	1 162 425 \$	1 160 888 \$
Débentures négociables		
Gouvernement du Canada	445 961 \$	406 763 \$
Provincial		
Municipal	536 840	459 692
Sociétés	27 270	29 307
Eurodollars/liés à l'indice	131 112	153 901
Titres à moyen terme	31 616	34 751
Total des obligations négociables	1 650 462 \$	1 531 661 \$
Prêts à terme	247 525 \$	215 305 \$
Prêts hypothécaires		
Résidentiel — assuré LNH	1 277 943 \$	1 265 609 \$
Commercial — non assuré	448 740	404 622
Obligations	179 824	79 425
Immobilier	0	1 643
Total des placements hypothécaires	1 906 507 \$	1 751 299 \$
Total des titres de créance	5 217 950 \$	5 236 034 \$

Valeur marchande
 1987

RAPPORT DES VÉRIFICATEURS À LA COMMISSION DU RÉGIME DE RETRAITE
DES EMPLOYÉS MUNICIPAUX DE L'ONTARIO

Nous avons vérifié l'état de l'actif net consolidé de la Caisse de retraite des employés municipaux de l'Ontario au 31 décembre 1988 et l'état de l'évolution de l'actif net consolidé de l'exercice clos à cette date. Notre vérification a été effectuée conformément aux normes de vérification généralement reconnues, et a comporté par conséquent les sondages et autres procédés que nous avons jugés nécessaires dans les circonstances.

À notre avis, ces états financiers consolidés présentent fidèlement la situation financière de la Caisse au 31 décembre 1988 et les résultats de son exploitation pour l'exercice clos à cette date selon les principes comptables rétroactifs reconnus, appliqués de la même manière qu'au cours de l'exercice précédent, après répercussion rétroactive de la modification de la méthode d'évaluation des placements dont il est question à la note 1 afférente aux états financiers consolidés.

Les états financiers consolidés de l'exercice précédent ont été vérifiés par d'autres comptables agréés.

John Ernst & Whinney
Comptables agréés,
Toronto, Canada

le 21 avril 1989

CERTIFICAT ACTUARIEL DE LA COMMISSION DE RETRAITE DES EMPLOYÉS
MUNICIPAUX DE L'ONTARIO AU 31 DÉCEMBRE 1988

La plus récente évaluation actuarielle relative au Régime de retraite des employés municipaux de l'Ontario a été effectuée au 1^{er} janvier 1988 à partir de la méthode actuarielle de répartition des prestations avec projection des résultats, en conformité avec les Recommandations sur l'évaluation actuarielle des régimes de retraite adoptées par l'Institut canadien des actuaires.

Les résultats de cette évaluation actuarielle indiquent une dette actuarielle totale de 7 719,310 millions \$ relativement aux prestations accumulées pour services accomplis par les participants avant le 1^{er} janvier 1988. La valeur provisionnement de 530,408 millions \$.

Les résultats de cette évaluation actuarielle indiquent aussi que les niveaux des cotisations patronales et salariales obligatoires sont suffisants pour couvrir le coût des prestations que les participants accumuleront au titre de leurs services accomplis pendant chaque année suivant la date de cette dernière évaluation, jusqu'à la date de la prochaine évaluation. Nous avons étudié le développement le plus probable de la dette actuarielle au cours de l'année 1988 en tenant compte des modifications portées au régime jusqu'au 31 décembre 1988. De plus, nous avons calculé la valeur actuarielle de l'actif de la caisse de retraite au 31 décembre 1988.

D'après les faits mentionnés ci-haut, il est de notre avis, conformément aux principes actuariels généralement acceptés, que l'actif de la caisse de retraite au 31 décembre 1988 est suffisant pour couvrir la dette actuarielle totale du régime relativement aux services accomplis par les participants jusqu'à cette date.

LA COMPAGNIE WYATT

Robert Brown
MARTIN J.K. BROWN,
Fellow, Institut canadien des Actuaires

le 21 avril 1989

12. ENGAGEMENTS

Le total des engagements en cours en matière de placements au 31 décembre 1988 s'élevait à environ 353 millions de dollars dont 175 millions de dollars ont trait à des hypothèques, 105 millions de dollars à des biens immobiliers, 17 millions de dollars à des prêts à terme et les 56 millions de dollars restants, au capital de risque et aux placements privés.

13. CHIFFRES PRÉSENTÉS À DES FINS DE COMPARAISON

Certains chiffres de 1987 présentés à des fins de comparaison ont été retraités afin de permettre le rapprochement avec ceux de 1988.

RESPONSABILITÉ À L'ÉGARD DES ÉTATS FINANCIERS

Les états financiers du Régime de retraite des employés municipaux de l'Ontario sont la responsabilité de sa direction, et ont été approuvés par le Conseil du OMERS.

Ces états financiers ont été préparés par la direction, conformément aux principes comptables généralement reconnus et aux modalités de la Loi sur les régimes de retraite de l'Ontario. Les renseignements financiers présentés dans d'autres parties de ce rapport annuel sont en conformité avec ceux des états financiers.

Dans le cadre de ses responsabilités, la direction a mis au point et maintient un système de contrôle comptable interne visant à garantir la fiabilité des registres financiers et la protection de l'actif de la caisse.

Ces états financiers ont été vérifiés par Thorne Ernst & Whinney, comptables agréés, dont le rapport est présenté plus loin.

Le OMERS est une caisse de retraite, qui doit donc présenter la valeur actuarielle de son actif et de son passif. Cette évaluation est réalisée par la Compagnie Wyatt, firme d'actuaire, conformément aux principes actuariels généralement reconnus. Le rapport de cette firme est aussi présenté à après.

Le directeur exécutif,



A. W. Reeve
Toronto, Canada
le 21 avril 1989

9. REVENU DE PLACEMENT

1987	23 907 \$	57 322 \$	1988	1987
Dépôts à court terme				
Obligations et débiteures canadiennes	276 652	287 787		
Prêts à terme	19 455	27 182		
Hypothèques	182 122	191 143		
Titres canadiens	77 052	95 742		
Titres non canadiens	15 360	14 938		
Fonds mutuels	36 743	18 717		
Biens immobiliers	7 958	14 604		
Débiteures sur biens immobiliers	10 571	9 414		
Capital de risque	2 116	306		
Propriétés de ressources naturelles	1 732	3 053		
Placements privés	2 149	4 459		
Gains en capital matérialisés	655 817	724 667		
	291 589	101 380		
	947 406	826 047		
Moins le revenu crédité à ce qui suit :				
Caisse de retraite administrées	(108 422)	(95 775)		
Provision pour les prestations non réduites de retraite anticipée	(10 625)	(14 674)		
	828 359 \$	715 598 \$		

10. PRESTATIONS

1987	165 383 \$	208 366 \$	1988	1987
Pensions des membres				
Cotisations des membres plus les intérêts remboursés	36 337	31 321		
Virements à d'autres régimes de retraite	3 770	2 877		
	205 490 \$	242 564 \$		

11. FRAIS D'ADMINISTRATION

1987	6 391 \$	7 829 \$	1988	1987
Services relatifs au personnel				
Transport et communication	563	716		
Services de vérification	67	202		
Services juridiques	394	129		
Autres services professionnels	734	1 254		
Autres services achetés	2 632	3 113		
Matières et fournitures	1 194	2 044		
Moins les honoraires de gestion des caisses de retraite administrées	11 975	15 287		
	673	749		
	11 302 \$	14 538 \$		

4. IMMOBILISATIONS

	Prix	Amortissement	Montant net	Montant net
	coûtant	cumulé	1 349 \$	603 \$
1988				
Matériel informatique	2 404 \$	1 055 \$		

5. SOMME À PAYER AUX CAISSES DE RETRAITE ADMINISTRÉES

Les caisses de retraite administrées, faisant partie de la Caisse, sont gérées pour le compte du Conseil des gouvernements des Collèges d'arts appliqués et de technologie de l'Ontario, du Ryerson Polytechnical Institute et du ministre de l'Énergie de la province de l'Ontario (The Ontario Hydro Guaratee Fund) et sont créditées de divers montants établis d'après leur quote-part des placements de la Caisse, à la valeur du marché. La Commission du régime de retraite des employés municipaux de l'Ontario est autorisée, en vertu de diverses conventions de gestion, à recouvrer les frais qu'elle engage pour l'administration des régimes mentionnés ci-dessus.

6. PROVISION POUR LES PRESTATIONS NON RÉDUITES DE RETRAITE ANTICIPÉE

Certains employeurs participants ont conclu des conventions avec la Commission en vue de l'établissement d'une provision pour les prestations non réduites de retraite anticipée outre celles fournies par le OMERS. La capitalisation est effectuée par le biais de cotisations supplémentaires. Une évaluation actuarielle est effectuée tous les trois ans. Lorsque la dette actuarielle est supérieure à l'actif actuariel dans le cas de groupes individuels, une série de versements spéciaux est prévue afin de combler l'insuffisance. L'évaluation actuarielle la plus récente a été effectuée au 1^{er} janvier 1987. Sur une base globale, l'actif actuariel a dépassé la dette actuarielle pour les groupes participants.

7. ACTIF NET

La Caisse est maintenue aux fins du versement de pensions aux membres retraités ou à leurs bénéficiaires, du versement futur de pensions et de prestations aux membres cotisants et aux membres ayant quitté leur emploi et ayant opté pour une pension différée. Selon la dernière évaluation actuarielle du régime en date du 1^{er} janvier 1988, le total de la dette actuarielle s'est établi à 7 719 310 \$, selon la méthode actuarielle du nivellement des droits à la retraite. À cette date, la valeur comptable de l'actif cumulé redressée par le biais de l'évaluation actuarielle s'élevait à 8 249 718 \$, ce qui a donné lieu à un excédent de capitalisation de 530 408 \$.

Les résultats de l'évaluation actuarielle indiquent que les montants existants des cotisations des membres et des employeurs sont suffisamment élevés pour satisfaire au coût actuariel normal des prestations gagnées au cours de 1988. De plus, le régime était entièrement capitalisé au 31 décembre 1988.

8. COTISATIONS

	1988	1987
Membres	263 023 \$	238 902 \$
Employeurs, services courants	262 049	238 049
Employeurs, remboursement de débiteurs à long terme (note 3)	19 574	51 649
Prestations non réduites de retraite anticipée (note 6)	905	2 472
	545 551 \$	531 072 \$

2. PLACEMENTS

1988		1987	
Valeur du marché	Prix cotant	Valeur du marché	Prix cotant
251 031 \$	251 031 \$	576 881 \$	576 881 \$
Encasse et dépôts à court terme			
2 812 887	2 966 225	2 821 943	2 821 943
Obligations et débentures canadiennes			
247 525	247 649	215 305	212 725
Prêts à terme			
1 906 507	1 863 219	1 751 299	1 691 309
Hypothèques			
3 431 066	2 936 588	2 365 768	2 151 342
Titres canadiens			
772 192	697 535	599 156	525 813
Fonds mutuels			
237 411	195 451	168 831	128 070
Biens immobiliers			
320 099	266 745	198 040	175 315
Débentures sur biens immobiliers			
161 590	124 993	168 869	145 574
Capital de risque			
94 576	94 443	95 059	88 068
Propriétés de ressources			
70 615	70 237	57 668	57 668
Placements privés			
102 276	94 442	90 818	89 161
10 407 775 \$	9 808 558 \$	8 980 243 \$	8 663 869 \$

Les obligations et les débentures canadiennes comprennent des débentures de la province de l'Ontario d'un prix cotant de 1 293 025 \$ (1 293 025 \$ en 1987), portant intérêt à un taux moyen pondéré de 9,07 % et venant à échéance à diverses dates à compter du 31 décembre 1993 jusqu'au 31 décembre 2006.

Au 31 décembre, la Caisse détenait des placements distincts dont la valeur du marché ou le prix cotant dépassait de 1 % la valeur du marché ou le prix cotant du total des placements :

Nombre de placements	Valeur du marché	Prix cotant
1	104 039 \$	105 000 \$
3	337 769	226 637
1	111 673	111 673
	553 481 \$	443 310 \$

3. DÉBITEURS À LONG TERME

En vertu de la Loi sur le régime de retraite des employés municipaux de l'Ontario, certains employeurs participants ont conclu des conventions avec la Commission en vue de l'établissement de provisions pour des prestations supplémentaires au titre des services passés. Chaque employeur est responsable de la capitalisation de ces prestations établies d'après des évaluations actuarielles distinctes. Les montants exigibles des employeurs aux termes de ces conventions sont comptabilisés à titre de débiteurs à long terme devant être payés, avec intérêts, sur une période n'excédant pas quinze ans.

NOTES AFFÉRENTES AUX ÉTATS FINANCIERS CONSOLIDÉS

Exercice clos le 31 décembre 1988 (en milliers de dollars)

GÉNÉRALITÉS

Le régime de retraite des employés municipaux de l'Ontario ("OMERS") est enregistré en vertu de la Loi sur les régimes de retraite de l'Ontario, et son numéro d'enregistrement est le C006725.

SOMMAIRE DES PRINCIPALES CONVENTIONS COMPTABLES

Période de consolidation

Certains des placements de la Caisse relatifs à des prêts à terme, des biens immobiliers et des situations spéciales sont détenus par des filiales en propriété exclusive. Les états financiers consolidés comprennent les comptes de la Caisse et ceux de toutes ses filiales.

Placements

Les placements sont présentés à la valeur du marché et sont comptabilisés à la date de négociation. La valeur du marché est établie au moyen des cours du marché, lorsque ces derniers peuvent être obtenus. Lorsque les cours du marché ne sont pas disponibles, les valeurs estimatives sont calculées en actualisant les mouvements de trésorerie établis d'après les rendements sur le marché, au moyen d'évaluations cycliques de biens immobiliers, ou des titres comparables.

Les gains et les pertes découlant de l'aliénation de placements sont imputés au revenu de placement. Le revenu tiré des placements est comptabilisé selon la méthode de la comptabilité d'exercice.

Consignes

Les consignations des membres et des employeurs reçues après la clôture de l'exercice, mais qui s'appliquent à l'exercice en cours, sont comptabilisées à titre de consignations à recevoir.

Prestations

Les versements au titre des prestations sont comptabilisés dans l'exercice au cours duquel ces versements sont effectués.

Immobilisations

Le matériel informatique est inscrit au prix coûtant et il est amorti selon la méthode linéaire sur une période de cinq ans.

1. MODIFICATION DE CONVENTION COMPTABLE

En 1988, la Caisse a changé sa méthode d'évaluation des placements, méthode qui est maintenant fonction de la valeur du marché plutôt que du prix coûtant. La modification a été appliquée rétroactivement et, par conséquent, l'état de l'actif net consolidé au 31 décembre 1987 et l'état de l'évolution de l'actif net consolidé de l'exercice clos à cette date ont été retravaillés.

En raison de cette modification, les placements ont augmenté de 599 217 \$ (316 374 \$ en 1987). Ces augmentations ont été ventilées aux montants à payer aux caisses de retraite administrées (70 282 \$ en 1988; 36 262 \$ en 1987) et à l'actif net (528 935 \$ en 1988; 280 112 \$ en 1987; 701 980 \$ en 1986). La plus-value non matérialisée, à la valeur du marché, s'élevant à 248 823 \$ (moins-valeur de 421 868 \$ en 1987) a été portée à l'état de l'évolution de l'actif net.

ACTIF NET CONSOLIDÉ

31 décembre (en milliers de dollars)

(retraité, note 1)

ACTIF	10 407 775 \$	146 265	1 349	47 320	153 842	10 756 551
Placements (notes 1 et 2)	8 980 243 \$	153 693	603	50 763	102 317	9 287 619
Débiteurs à long terme (note 3)						
Immobilisations (note 4)						
Cotisations à recevoir						
Revenu couru						

PASSIF	1 222 153	117 081	32 575	1 371 809	9 384 742 \$	8 131 872 \$
Somme à payer aux caisses de retraite administrées (notes 1 et 5)	1 040 297	98 554	16 896			
Provision pour les prestations non réduites de retraite anticipée (note 6)						
Créditeurs et frais courus						

ACTIF NET (notes 1 et 7)

Au nom du conseil,



Membre

Membre

ÉVOLUTION DE L'ACTIF NET CONSOLIDÉ

Exercice clos le 31 décembre (en milliers de dollars)

1987

(retraité, note 1)

AUGMENTATION DE L'ACTIF NET	545 551 \$	715 598	531 072 \$
Cotisations (note 8)			
Revenu de placement (note 9)			
Plus-value (moins-value) non matérialisée des placements, à la valeur du marché (note 1)	248 823	(421 868)	

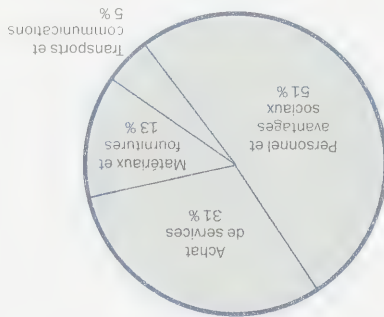
DIMINUTION DE L'ACTIF NET	242 564	205 490	
Prestations (note 10)			
Frais d'administration (note 11)	14 538	11 302	

AUGMENTATION DE L'ACTIF NET	1 252 870	720 771	
Actif net au début de l'exercice	8 131 872	7 411 101	

ACTIF NET À LA CLÔTURE DE L'EXERCICE

- de 23 nouveaux postes, y compris 4 pour le développement des systèmes, 13 pour l'administration des placements, 1 pour le service des placements, 3 pour la division des finances et de l'administration et 2 pour les communications avec les membres. À la fin de l'exercice, l'effectif du OMERS atteignait 169 personnes.
- Les dépenses pour le matériel et les fournitures ont presque doublé; cette augmentation est due en grande partie au remplacement de tous les formulaires, états de compte, manuels et autres documents imposé par la Loi sur les régimes de retraite;
 - Le coût des services professionnels augmentait, reflétant la hausse des services d'évaluation actuarielle, la complexité croissante des procédures comptables du fonds, la mise en oeuvre des fonctions de vérification.

CHARGES ADMINISTRATIVES 1988



cation interne et les frais supplémentaires engagés pour les services actuels suivants :

- réexamen des hypothèses de placement et des changements de taux;

- modifications législatives imposées par la réforme des régimes de retraite;
 - modifications législatives proposées, imposées par la réforme des régimes de retraite;
 - nouvelles prestations supplémentaires de type 6 pour les conseillers;
 - évaluation des coûts d'une nouvelle méthode de rachat.
- À cause de l'augmentation importante des coûts de l'augmentation des régimes de retraite, le Conseil a autorisé la modification des directives touchant les frais administratifs, les faisant passer de 1,0 % à 1,5 % de toutes les cotisations. La directive régissant les frais administratifs de placement est restée inchangée, représentant toujours 1/10^e de 1 % de la fraction amortie des titres du marché des capitaux. En 1988, les dépenses administratives du OMERS sont restées bien en-deça de ces directives. Le OMERS perçoit en outre des honoraires de gestion pour les autres régimes dont il s'occupe et qui viennent compenser ces dépenses.
- Toutefois, la hausse des coûts administratifs se poursuivra à cause de la complexité croissante imposée par les lois fédérales et provinciales. L'incidence de la réforme des caisses de retraite ne s'est pas encore fait pleinement sentir, et la réforme fiscale visant à traiter équitablement les contribuables qui cotisent à un régime de retraite et ceux qui n'y cotisent pas, est imminente.
- Le OMERS poursuit toujours ses objectifs, qui résistent le contrôle très strict des coûts et l'amélioration de la productivité, dans le but de réduire l'effet sur les charges administratives des changements profonds qui ont été entrepris.

LE COÛT DU CHANGEMENT

Comme le signale le président du Conseil dans son rapport, la réforme des régimes de retraite touche l'ensemble des activités de la caisse OMERS. Pour la division des finances et de l'administration, il s'agit notamment d'assurer l'exploitation économique tout en offrant aux employeurs, aux membres et aux retraités un service impeccable, et en veillant à ce que tous les systèmes, toutes les ressources et tout le personnel soient en place pour la mise en oeuvre des mesures imposées par la réforme.

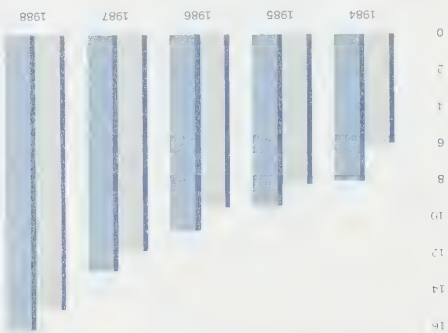
L'an dernier, nous avons signalé que cette réforme coûterait cher. La première année de sa mise en oeuvre

CHARGES ADMINISTRATIVES

(En millions de \$)

□ Réelles

■ Directives



est maintenant écoulee, et nous avons aujourd'hui une meilleure idée de son coût réel. Les frais administratifs ont augmenté de 27 % par rapport à 1987; une grande partie de cette augmentation est due à la réforme des régimes de retraite :

- Les frais de dotation en personnel ont augmenté de près de 25 %; cette augmentation reflète la création

terminé le 31 décembre 1988, ce chiffre étant de 9,9 % pour les cinq dernières années.

Biens immobiliers

En 1988, le portefeuille immobilier est passé d'environ 367 millions de dollars à la fin de 1987, à 482 millions de dollars à la fin de 1988. Cette augmentation est fondamen-

tementale due à l'acquisition de deux propriétés : le Centre Honeywell de North York (acquis en février) et l'achat en août auprès de BCE Développement d'un

intérêt de 40 % dans la première phase de BCE Place, soit la tour Canada Trust, dans le centre financier de

Toronto, au coin des rue Bay et Front.

Pour l'exercice terminé le 31 décembre 1988, le rendement total du portefeuille immobilier a atteint

16,0 %, ce chiffre étant de 10,6 % pour les cinq

dernières années.

Au cours des premières phases de réalisation de

complexes immobiliers de rapport, il se peut que les

rendements restent très modiques; au fur et à mesure de

la location de ces locaux, ce rendement enregistrera une

hausse. C'est ce facteur qui a contribué à l'amélioration

du rendement total en 1988.

Total des rendements

Le tableau suivant montre le total des rendements

obtenus par les différentes catégories d'actif en date des

31 décembre 1987 et 1988, comme pour la période de

cinq ans entre 1984 et 1988.

Total des rendements*
1988 1987 1984-1988

Débitures de l'Ontario	10,6	10,7	4,0
Obbligations négociables	10,7	4,5	13,2
Hypothèques	10,2	9,6	13,1
Prêts à terme	10,9	14,0	14,2
Actions canadiennes	17,1	4,3	10,6
Actions étrangères	7,0	(2,4)	14,0
Situations spéciales	7,7	16,5	9,9
Biens immobiliers	16,0	10,2	10,6
Total de la caisse	12,1	5,8	12,9

*Y compris les gains ou les pertes non réalisés.

ACHATS RECORDS DE TITRES DE PARTICIPATION

Titres de participation

Après l'étude approfondie de ses engagements de provisionnement, le OMERS a décidé d'élargir son portefeuille de titres de participation en 1988; il a par

conséquent procédé au placement d'une somme record de 950 millions de dollars dans des titres de participation (dont 462 millions de dollars au quatrième trimestre

seulement). Cette action s'est combinée à la hausse du marché survenue en 1988 pour faire passer le total des titres de participation négociables à 4,4 milliards de

dollars, soit 42,7 % de l'actif total, par rapport à un chiffre de 3,1 milliards de dollars, ou 34,9 %, à la fin de 1987.

En 1988, les gains en capital totaux réalisés ont atteint 74 millions de dollars... par rapport à un chiffre record

de 258 millions de dollars en 1987.

Le rendement des placements canadiens a atteint 17,1 % pour l'année, alors que la moyenne de l'indice

composé de la Bourse de Toronto était de 10,8 % et que le rendement médian S&P atteignait 13,3 %.

Au cours des cinq dernières années, le rendement des placements canadiens a atteint 10,6 %, par rapport à un

chiffre médian de 9,9 % pour les fonds de retraite. Pour les titres étrangers, ce rendement est resté à un chiffre

plus modeste de 7,0 % en 1988, alors que sur cinq ans, il atteint le chiffre très intéressant de 14,0 %, par rapport à

un rendement médian de 14,0 %. Sur des périodes prolongées (de 20 ans et plus), on prévoit que les titres

de participation procureront des rendements supérieurs à ceux des titres à revenu fixe, constituant par conséquent

une meilleure source de revenu face aux obligations à long terme de la caisse.

Obligations

Nous avons été à même de profiter d'une courbe de rendement inversée (taux plus élevés à court terme qu'à long terme) pour réduire la maturité moyenne de notre portefeuille d'obligations de 8,7 à 7,1 années, tout en augmentant notre rendement moyen, qui est passé de 10,5 % à 11,0 %. Le OMERS a réalisé par la même occasion près de 20 millions de dollars de gains en capital, enregistrant un rendement total de 10,7 %, supérieur de 0,5 % au rendement universel ScotiaMcLeod. Au cours des cinq dernières années, le rendement de notre portefeuille d'obligations a été de

13,2 %, par rapport à un rendement médian de 12,9 %

pour le marché des obligations.

30 % de notre portefeuille d'obligations, soit 600 millions de dollars, arrivent à échéance d'ici deux ans; cette situation devrait faciliter notre passage à un portefeuille

concentré sur les titres de participation et l'immobilier.

Hypothèques

Au 31 décembre 1988, la valeur marchande du porte-

feuille provisionné dépassait 1,9 milliard de dollars, avec un gain non réalisé de 38 millions de dollars. En 1988, le

taux de rendement pondéré dans le temps sur la valeur marchande a atteint 10,2 %, ce chiffre s'élevant à 13,1 %

d'excellente qualité, les prêts en souffrance de 90 jours ou plus ne représentant que 0,3 % du portefeuille total

Prêts à terme

En 1988, le portefeuille des prêts à terme a grossi, passant

de 215 millions de dollars à la fin 1988 à 248 millions de dollars à la fin 1988. Pour l'exercice clos le 31 décembre

1988, le rendement de ce portefeuille a été de 10,9 %; ce chiffre est de 14,2 % pour les cinq dernières années.

La qualité du portefeuille de prêts, qui assure le financement à terme d'entreprises canadiennes petites et

et du rendement de ses placements.

Situations spéciales

Il s'agit d'un portefeuille constitué de capitaux de risque,

de placements dans les pétroles et le gaz et de placements privés dans des actions de sociétés offrant à la

caisse d'excellentes occasions de rendement supérieur à long terme.

En 1988, ce portefeuille est passé de 244 millions de dollars à 267 millions de dollars. Cette augmentation

nette est due aux nouveaux placements réalisés au cours de l'année, qui atteignent 43,5 millions de dollars, moins

16,2 millions de dollars provenant du capital et de la vente de placements, notamment de notre participation à ONEX Food Services Inc.

En termes généraux, le rendement du portefeuille des situations spéciales s'est inscrit à 7,7 % pour l'exercice

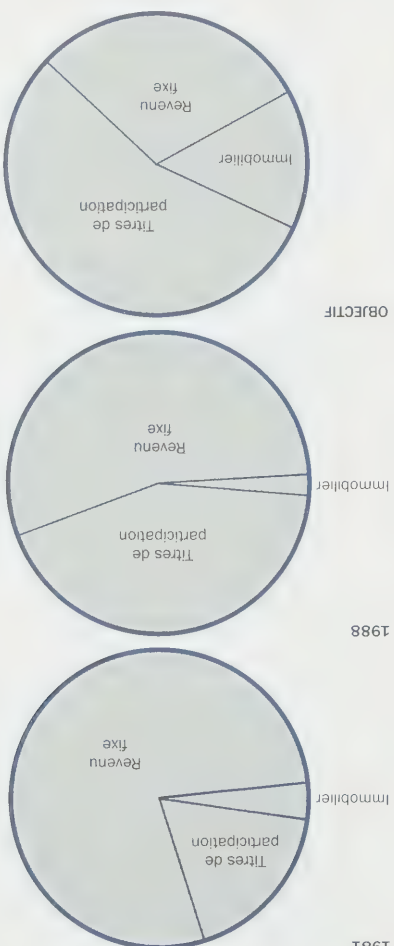
Comme le montre le tableau, le revenu de placement a enregistré une certaine baisse, mise particulièrement en évidence par le revenu anormalement élevé obtenu en 1987, qui comprenait d'importants gains en capital réalisés avant le krach boursier d'octobre 1987. Ce krach avait créé un climat d'incertitude, et de nombreux analystes prévoyaient pour 1988 une diminution de l'activité économique. En fait, du point de vue de l'activité économique, cette année a été marquée par plusieurs surprises agréables :

- dans le cadre de ses nouveaux objectifs, le OMERS a procédé à d'importants placements dans les titres de participation en 1988, ce qui lui a permis de profiter de la reprise du marché;
- l'économie canadienne a poursuivi sa croissance à un taux réel de 4 %, semblable à son taux de croissance de 1987;
- 275 000 nouveaux emplois (dont la plupart à plein temps) ont été créés au Canada, ce qui a permis de ramener le chômage à un taux de 7,6 % de la population active, alors qu'il était de 8,1 % au début de l'année;
- l'indice des prix à la consommation et l'inflation sont restés relativement stables, avec un chiffre de 4,1 % (4,4 % en 1987) malgré des marchés ouverts de plus en plus serrés et une activité industrielle débordante.

Par contre, les taux d'intérêt ont été à la hausse, notamment pour les fonds à court terme (le taux préférentiel au Canada a augmenté de 2½ points). À l'échelle internationale, les principaux pays industrialisés ont enregistré des taux de croissance du même ordre, avec une inflation relativement modérée. Cette situation s'est traduite par une expansion globale du commerce, alors même que les différends internationaux se poursuivaient.

Pour le nouvel exercice, la situation économique s'annonce plutôt incertaine. Toutefois, la large diversification du portefeuille du OMERS dans de nombreuses catégories de placements lui procure une certaine protection contre les variations de l'économie... tout en lui offrant d'excellentes possibilités face aux défis que présente à long terme la réforme des régimes de retraite.

ÉVOLUTION DE LA COMPOSITION DE L'ACTIF



Les effets à revenu fixe comprennent les obligations, les débtures, les prêts hypothécaires, les prêts à terme et à court terme. Les titres de participation comprennent les actions canadiennes, les actions étrangères, les situations spéciales et les fonds communs.

Conformément à l'article 16 de la Loi sur le régime de retraite des employés municipaux de l'Ontario, la division des retraites s'occupe aussi de la gestion des caisses de retraite de l'Institut polytechnique Ryerson et des Collèges d'arts appliqués et de technologie de l'Ontario (CAAT). La valeur marchande nette de l'actif de ces deux fonds atteint aujourd'hui respectivement 104,5 millions de dollars et 1 122,2 millions de dollars. Le caissier de Ryerson compte aujourd'hui 1 370 membres et 200 retraités qui ont perçu des prestations de 1,4 million de \$ en 1988. Quant à la caisse des CAAT, elle compte 17 451 membres et 2 153 retraités qui ont touché 12,1 millions de \$ de prestations en 1988.

Programme de placement

DES PLACEMENTS D'AVENIR

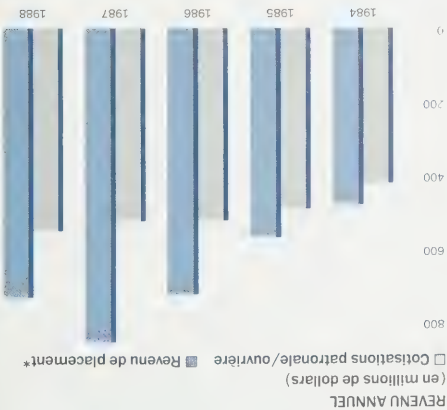
Pour la division des placements, la réforme des régimes de retraite présente deux défis importants :

- veiller à ce que la croissance du rendement du capital investi soit suffisante pour assurer le provisionnement de la caisse et le versement des prestations futures,
- ce conformer aux nouvelles exigences de la Loi sur les régimes de retraite... notamment le respect de la règle de la « prudence normale », la révision approuvée de notre déclaration d'intention pour les placements, les nouvelles procédures de rapport et de divulgation et les études annuelles de la convention de retraite.

Au cours de cet exercice, particulièrement occupé, la division a fait des progrès considérables. Parmi les grandes réussites de l'année, citons notamment l'étude approfondie des alternatives de placements pour permettre au OMERS de satisfaire ses obligations de provisionnement à l'avenir, ainsi que la mise au point de nouveaux objectifs de composition du portefeuille à long terme. Ces objectifs, qui ont reçu l'approbation du Conseil, sont les suivants :

- 30 % des placements dans des effets à revenu fixe (y compris à court terme);

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- 55 % dans des titres de participation (y compris les situations spéciales);
- jusqu'à 15 % dans les biens immobiliers.

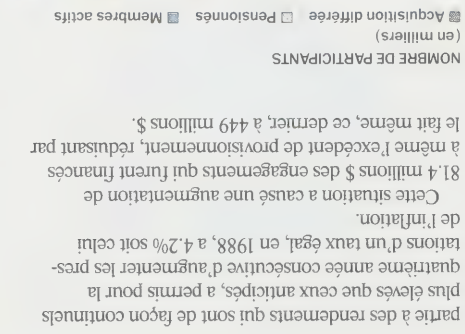
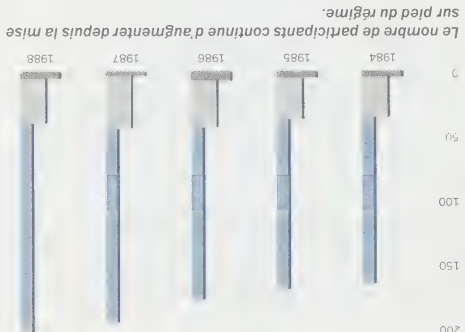
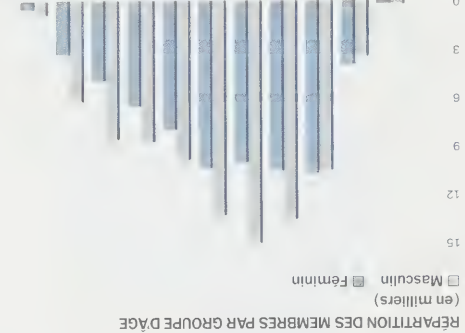
Ces nouveaux objectifs se traduisent par une modification de notre portefeuille, avec concentration sur les titres de participation et l'immobilier. Cette modification, qui devrait améliorer la régularité et le rendement, devrait aussi rendre notre caisse plus souple face à l'inflation et mieux à même de faire face aux exigences d'indexation.

Tout en procédant à ces importantes modifications, le OMERS a enregistré une excellente année en 1988. Compte tenu des cotisations nettes et du revenu, le fonds a obtenu un rendement global de 12,1 % pour l'exercice, par rapport à un chiffre de 5,8 % en 1987. Ce chiffre se compare favorablement au rendement médian SEI de 10,4 % pour les fonds de retraite équilibrés.

* Le revenu de placement comprend le revenu au comptant des intérêts créditeurs, des dividendes, etc., ainsi que les gains réalisés à la vente de valeurs. Ce revenu ne s'applique qu'à la caisse OMERS et ne tient pas compte du revenu des autres régimes gérés par le OMERS.

partie à des rendements qui sont de façon continue plus élevés que ceux anticipés, a permis pour la quatrième année consécutive d'augmenter les prestations d'un taux égal, en 1988, à 4,2% soit celui de l'inflation.

Cette situation a causé une augmentation de 81,4 millions \$ des engagements qui furent financés à même l'excédent de provisionnement, réduisant par le fait même, ce dernier, à 449 millions \$.



Le résultat de l'évaluation de janvier 1988 tiennent compte des augmentations imposées jusqu'ici par la réforme des régimes de retraite et les autres améliorations, dont les coûts sont évalués à 300 millions de dollars. Comme le montre le tableau ci-haut, la caisse du OMERS enregistre toujours un excédent de provisionnement raisonnable. Cette situation, attribuée en

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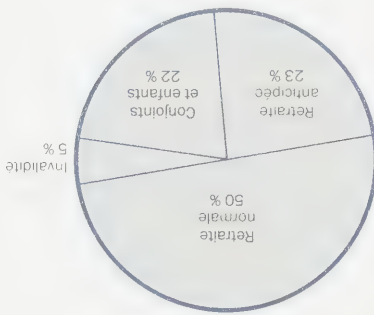
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LA RÉFORME DES RÉGIMES DE RETRAITE : UN DÉFI À RELEVÉ

Tout au long de 1988, la division des régimes de retraite de l'OMERS a pour suivi sa tâche qui vise la mise en oeuvre des modalités énoncées dans la Loi de 1987 sur les régimes de retraite de l'Ontario. Cette mise en oeuvre a débuté en 1987, avec l'augmentation des prestations de survivant, passées de 50 à 60 %, et avec l'augmentation du taux d'intérêt versé sur les remboursements. En 1987 également, l'OMERS a commencé la modernisation de son système d'administration des retraites, pour y incorporer les nombreuses modifications exigées par le traitement automatisé des prestations par les différentes mesures imposées par la réforme des régimes de retraite.

PROFIL DES RETRAITES 1988



En 1988, le reste des modifications imposées par la Loi de 1987 sur les régimes de retraite ont été mises en oeuvre. Il s'agit notamment des modifications suivantes :

- Les cotisations versées après 1986 sont dorénavant acquises après une période d'adhésion de deux ans;
- L'intérêt versé sur les cotisations salariales est dorénavant égal à la moyenne des taux de dépôt à terme fixe de cinq ans des banques à charte... soit 7,17 % en 1988;
- L'adhésion au régime a été élargie à de nouvelles catégories d'employés à temps partiel;
- La règle des 50 % a été mise en oeuvre : pour la partie des prestations acquises après 1986, les

2

La réforme des régimes de retraite a aussi mis à rude épreuve les ressources de communications du OMERS en 1988. Il a fallu procéder à la révision complète de la plupart des documents, notamment les guides des membres et des retraités, ainsi que de la Loi et des règlements régissant le Régime de retraite des employés municipaux de l'Ontario, le diaporama et les documents de planification de la retraite. La réforme a aussi causé un surcroît de travail pour le personnel de la division des retraites, chargé de faire connaître les modifications imposées par la réforme par l'entremise des différents bulletins du OMERS, ainsi que par contacts directs au

informaticien intégré. C'est grâce à l'automatisation que nous avons été en mesure d'adopter les modifications complexes imposées par la réforme des régimes de retraite. Il reste toutefois beaucoup de travail à accomplir avant de disposer d'un système bien rodé, dans lequel l'information est traitée en temps voulu.

Les changements imposés par la réforme des régimes de retraite ont mis à rude épreuve l'administration de la caisse. Toutes les procédures, tous les systèmes et les états de compte et les évaluations, ont dû être modifiés. L'ancien système, basé sur un grand nombre de formulaires différents et exigeant d'innombrables interventions humaines, a été remplacé par un système informatisé.

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- Des modifications ont été apportées à la définition de conjoints de fait.
- En 1988, les prestations du OMERS ont été augmentées de 4,2 %, ce qui correspond au taux annuel d'inflation pour l'année précédente. Un rattrapage a aussi été effectué pour relever les prestations à au moins 60 % de l'augmentation des prix à la consommation depuis le début de ces versements.
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- À la cessation d'emploi, un membre peut transférer la valeur actualisée de sa rente acquise dans un régime enregistré d'épargne-retraite ou un autre régime de pension bloqué.
- De nouvelles prestations en cas de décès avant la retraite ont été introduites.
- Des modifications ont été apportées à la définition de conjoints de fait.
- En 1988, les prestations du OMERS ont été augmentées de 4,2 %, ce qui correspond au taux annuel d'inflation pour l'année précédente. Un rattrapage a aussi été effectué pour relever les prestations à au moins 60 % de l'augmentation des prix à la consommation depuis le début de ces versements.

LA RÉFORME DES RETRAITES INTRODUIT D'IMPORTANTES MODIFICATIONS

Rapport du président du Conseil

En 1988, les importantes modifications apportées aux régimes de retraite par la réforme ont placé le OMERS face aux plus gros défis de son histoire.

La nouvelle Loi sur les régimes de retraite, introduite en 1987 en Ontario, a marqué pour les présidents du OMERS d'importantes modifications favorables. Mais comme tous les jours, les révisions entraînent des coûts, et la réforme des régimes de retraite rend plus compliqué l'administration des caisses de retraite. La mise en oeuvre des nouvelles réglementations a soulevé d'énormes difficultés, car tous les aspects de l'exploitation de la caisse OMERS étaient touchés... depuis l'administration des retraites jusqu'aux stratégies de placement, depuis les systèmes jusqu'aux communications avec les membres.

Pour se conformer aux nouvelles normes imposées, il a fallu modifier profondément tous les systèmes et toutes les procédures du OMERS. Des mesures ont déjà été prises, et d'autres le seront encore en 1989.

La Commission de retraite des employés municipaux de l'Ontario tient à assurer ici à ses membres qu'elle fera l'impossible pour que cette transition s'effectue en douceur. Vu l'importance des modifications à apporter à notre système et à notre exploitation, et vu les nombreuses complexités des nouvelles procédures de rapport, il se peut que nos services connaissent certains retards occasionnels au cours de l'année qui s'annonce. Nous vous remercions d'avance de votre patience.

Il ne fait aucun doute que les frais administratifs vont augmenter, il va nous falloir élargir notre personnel et notre service informatique pour mettre en oeuvre la réforme des régimes de retraite.

En outre, il va nous falloir réviser les pratiques de placement du OMERS, pour qu'elles se conforment au régime de «prudence normale» stipulant que l'administrateur d'un régime de retraite doit apporter «à l'administration et au placement des fonds de la caisse de retraite le soin, la diligence et la compétence qu'une personne d'une prudence normale exercerait relativement à la gestion des biens procédons à la révision de la déclaration d'intention con- cernant les pratiques et les objectifs de placement du régime, ainsi qu'à la nomination de nouveaux portefeuillistes indépendants qui seront chargés des placements. La modification du portefeuille vise à obtenir un rendement supérieur à long terme afin de pouvoir faire face à l'augmentation prévue entraînée par l'indexation obligatoire. L'appel fait à des portefeuillistes indépendants nous permettra de faire face à l'expansion continue de notre portefeuille de placements de manière prudente.

Toute en s'attaquant aux problèmes de la réforme des régimes de retraite en 1988, le OMERS a préservé la qualité


du service qu'il offre à ses retraités comme à ses membres. Voici les points saillants de l'exercice :

- Augmentation de 15,4 % de l'actif net du OMERS, passant de 8,132 milliards de dollars à 9,385 milliards de dollars.
- Augmentation du nombre des membres cotisants, qui atteint le chiffre de 160 853, et du nombre des pensionnés qui s'élève à 38 780.
- Augmentation de 10 % des cotisations de retraite, qui ont atteint 549 millions de dollars.
- Rendement total de 12,1 % sur la valeur marchande des fonds du OMERS pour l'exercice, par rapport à un rendement médian de 10,4 % pour les caisses de retraite équilibrées.
- Amélioration soutenue du revenu total de placement, y compris les gains en capital annuels non réalisés, face à un déclin du revenu réalisé de placement reflétant les facteurs suivants : niveau anormalement élevé de gains en capital réalisés en 1987 dû à la vente opportune de titres de participation avant la baisse d'octobre du marché boursier et proportion de réalisation des gains en capital en 1988 inférieure à la moyenne, le OMERS intensifiant ses achats de titres de participation dans le but d'atteindre ses nouveaux objectifs de placement.
- Nouvelle augmentation de 4,2 % des retraites, correspondant à la croissance de l'indice des prix à la consommation.
- Mise en oeuvre des modifications imposées par la réforme des régimes de retraite.

Pour l'avenir, nous nous attendons à de nouvelles modifications et à de nouveaux défis... notamment ceux soulevés par la mise en oeuvre des modalités d'indexation et par la réforme fiscale qui devrait être introduite incessamment au niveau fédéral.

Nous tenons à vous assurer que nous veillerons toujours avant tout à relever tous ces défis en votre nom.

Le président du Conseil,



P.R. Burke
le 21 avril 1989

TABLE DES MATIÈRES

vigoureuse performance des placements du OMERS que ces amélioations ont pu être apportées.

Les fonds du OMERS sont actuellement investis dans un portefeuille très diversifié de placements du marché des capitaux, notamment des titres de participation, des obligations, des titres du marché monétaire à court terme, des hypothèques, des biens immobiliers, des prêts à terme et des capitaux de risque.

Le OMERS est géré par une Commission dont les membres sont nommés par le lieutenant-gouverneur en conseil sur recommandation du ministre des Affaires municipales de l'Ontario. La majorité des membres de la Commission sont des employés des gouvernements locaux participant au régime. Parmi les autres membres figurent des représentants élus ou nommés des municipalités et des conseils locaux des municipalités, ainsi qu'un représentant du gouvernement provincial. Le OMERS est donc géré par des employeurs et des employés des pouvoirs publics locaux, pour eux-mêmes, dans le seul et unique but de produire un revenu de retraite convenable et uniforme moyennant des taux de cotisations stables et raisonnables.

Le régime de retraite des employés municipaux de l'Ontario (Ontario Municipal Employees Retirement Board — OMERS), constitué en 1962 par une loi de l'Assemblée législative de l'Ontario, est une caisse de retraite desservant des groupes diversifiés d'employés des pouvoirs publics locaux.


Outre 1 098 municipalités, commissions et conseils scolaires locaux, le OMERS assure la gestion des régimes de retraite de l'Institut polytechnique Ryerson et des collèges d'arts appliqués et de technologie, gestion pour laquelle il perçoit des honoraires.

Le OMERS est entièrement financé par des cotisations partielles des municipalités membres et de leurs employés. Afin de satisfaire à ses obligations vis-à-vis des membres actuels et futurs, le OMERS doit investir ses fonds et en réinvestir le produit avec prudence et efficacité.

Le OMERS est un régime de retraite contributif à prestations déterminées, mais au cours des années, les prestations de retraite ont fait l'objet d'augmentations spéciales et d'améliorations sans relèvement des cotisations versées par les membres et les employeurs. C'est grâce à une planification financière solide et stable et à la

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UPDATE



Ontario Municipal Employees Retirement Board

LA RÉFORME DES CAISSES DE RETRAITE

- Les prestations pour les membres
- Une gestion pleine de défis

DANS CE NUMÉRO

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Annual Report 1989



The Balanced Approach



ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

ONE UNIVERSITY AVENUE, SUITE 1000, TORONTO, ONTARIO M5J 2P1 (416) 369-2400 FAX (416) 360-0217

25 June 1990

The Honourable John R. Sweeney
Minister of Municipal Affairs and Housing
17th Floor
777 Bay Street
Toronto, Ontario
M5G 2E5

Dear Mr Sweeney:

I am pleased to present to you the 1989 OMERS Annual Report. The report reviews the activities of the System over the past year.

Our constant aim is the provision of a financially sound pension plan at stable and reasonable contribution rates for municipal employees and their employers across the Province. We have met this goal in the past, and we look forward to continuing to fulfil our mandate in an increasingly demanding environment.

Sincerely,

A handwritten signature in dark ink, appearing to read 'P. R. Burke', with a stylized flourish at the end.

P. R. Burke,
Chairman

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Ontario Municipal Employees Retirement System

Established in 1962 by an Act of the Ontario Legislature, the Ontario Municipal Employees Retirement System (OMERS) is a pension plan for employees of local governments in Ontario. Some 1,108 municipalities, local boards and school boards participate in the OMERS plan. OMERS also manages the pension plans of Ryerson Polytechnical Institute and the Colleges of Applied Arts and Technology.

OMERS is managed by a Board whose members are appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Municipal Affairs. Eight members of the Board are employees of participating local governments, two members are elected or appointed officials of municipalities and municipal boards, and one member is a Provincial official.

OMERS is a contributory defined benefit pension plan. Ad hoc increases and improvements to retirement benefits have been made over the past 12 years without any increase in member and employer contribution levels. These improvements to the pension benefits were made possible by sound financial planning and by the strong investment performance of the OMERS Fund.

OMERS is financed by equal contributions from participating employers and employees, and by investment earnings of the OMERS Fund. The OMERS Fund is currently invested in a widely diversified portfolio of capital market investments including equities, bonds, short-term money market securities, mortgages, real estate, term loans and private placements.

Disponible en français

Printed on recycled paper

OMERS 1989 Highlights

2.00

1.75

1.50

1.25

1.00

1985

1986

1987

1988

1989

Total OMERS Fund

Median Fund

- A number of proposed benefit changes, including an inflation indexing formula, were sent to the Government for approval.
- The Board hosted a meeting of member and employer representatives in Toronto on October 21 to discuss the OMERS plan and explain the proposed changes.
- Membership increased 6.3% to 170,998, and the number of pensioners grew by 7.5% to 41,687.
- Pension contributions for the year were \$612 million and investment income was \$916 million.
- Benefits paid during 1989 totalled \$245 million.
- Pensions were increased by 4% on July 1.
- The market value of the OMERS Fund (consolidated) grew 18% from \$10.4 billion to \$12.3 billion.
- Market value investment returns for 1989 were 16.1%.
- The 5 year average return on investment for the period ending December 31, 1989 was 13.9%, while inflation averaged 4.4% per year.

Investment Policy Changes

Reforms under the Pension Benefits Act, 1987, subtly changed the prudent investment requirements under which the Board has operated since 1975. Where the Board was previously perceived to be prudent if professional investment advisors made decisions on its behalf, pension reform requires the Board to understand more of the investment process. During 1989 the Board examined alternatives, developed a strategy and prepared and filed a Statement of Investment Policies and Goals as required by the Act.

The first step in redefining the OMERS investment policy was to gain a greater understanding of *why* the funds are invested. The Board examined the plan liabilities, both for pensions being paid to retired OMERS members and benefits being earned by active members. The impact of Ontario government proposals to introduce mandatory inflation protection for pension plans was also considered.

Plan Liabilities

One overriding fact faces OMERS if contractual indexing is to be included in the OMERS plan: *from the time a municipal employee enrolls in the System until the last monthly pension is paid for that person, the pension liability is driven largely by inflation.* Generally

speaking, municipal salaries increase with the inflation rate. Indexed pensions will also keep pace with inflation.

Financing the ever growing liability through a long term, "prudent person" investment policy was the challenge facing the OMERS Board in 1989.

The OMERS actuary projected the plan liabilities over different periods of time, with different levels of inflation protection and different assumptions of future investment earnings. The Board and the Board's investment advisors then examined historical rates of return for various asset classes to estimate future returns for various asset mixes. Research indicated that only equities and real estate have had long term rates of return significantly exceeding the rate of inflation.

The Ontario Government's proposed introduction of mandatory indexation of pension plans added a new challenge for the OMERS Board. An indexing system suitable to OMERS, preferably without a significant increase in contribution rates, had to be found. Part of the solution would be greater returns on Fund investments than our previous asset mix of half equities and half fixed income investments could produce. A new asset mix was required to soften the effect of higher long term liabilities.

Balanced Asset Mix

The Board was faced with finding the right asset balance. Equities, which offer high long term growth, fluctuate in the short term from very high returns to low or negative returns. Fixed income securities (bonds and short term instruments) provide more stable returns from year to year but offer lower long term growth.

To meet the long term requirements of mandatory inflation indexing, recognize the inflation-driven pension liabilities, and keep member and employer contributions reasonable and stable, the Board chose to invest 55% of the Fund in equities, 15% in real estate ownership and 30% in fixed income investments. Until 15% of the total portfolio can be invested in real estate, funds earmarked for real estate will be invested in fixed income securities. This new, long term investment plan will not be achieved in one year, but it represents the goal adopted for the OMERS Fund by the Board.

The last few years can be characterized as years of change and challenge and the end is not in sight. We shall continue our commitment to a high level of service as we work together to provide a sound retirement system for municipal employees.



P. R. Burke, Chairman

A Year of Consolidation and Improvement

The goal of the Pension Division in 1989 was to improve benefit administration and services to members and employers. Administration procedures were revised, and major improvements in claims processing and in the annual reporting of contributions were achieved.

The Division also began a complete overhaul of its computer systems starting with the pension payroll system. When this three-to-five year project is complete, OMERS will be able to provide much better service to members and employers.

Also in 1989, communications services were expanded and improved. Two bilingual Communications Officers and a Client Service Department, to be operational early in 1990, were added. Employer administration seminars were restarted. The slide show used to help explain the OMERS plan to members was redeveloped. Members' Annual Statements were revised, old publications were revamped and new material was developed. This significant effort to upgrade communications services will continue into 1990.

OMERS pensions were increased by 4% in July to reflect the increase in the Consumer Price Index. This is the 5th consecutive year that pensions have been increased to parallel the rise in inflation. The increase, which added liabilities of \$85 million, was funded out of the actuarial surplus.

Plan Changes

The Board forwarded numerous *proposals* to amend the OMERS plan to the Minister of Municipal Affairs, The Honourable John Sweeney, for consideration by the Government of Ontario. Some of the *proposed changes* ensure compliance with Pension Benefits Act requirements, and some are new initiatives.

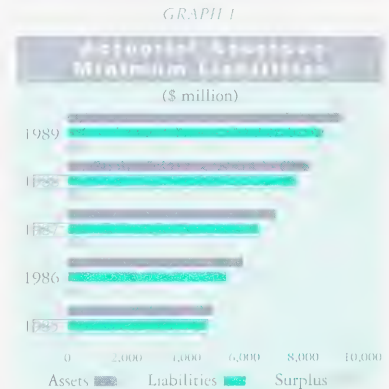
Highlights of the amendments proposed by the Board:

- A buy-back provision would allow members to buy past service without a Supplementary Agreement between the OMERS Board and the member's employer. Purchasable service includes service with any Canadian government employer or war service with the allied armed forces.
- An early retirement provision would allow a member who is within 10 years of normal retirement to retire on an unreduced pension after 30 years of credited service.
- An expanded spousal benefit may provide a pension to the spouse of a deceased member if the marriage took place after the member's retirement.
- A guaranteed inflation protection formula would provide an annual increase equal to 75% of the Consumer Price Index increase up to a maximum CPI increase of 8%. Inflation protection exceeding the annual cap will be carried forward to future years. The formula will

apply to pensions, deferred pensions and disability waiver benefits, and the cost would be met from the plan surplus plus a contribution rate increase of 1/2 of 1% of earnings for both members and employers.

Actuarial Valuation

The OMERS 1989 actuarial valuation, prepared by The Wyatt Company, shows that the current financial position of the fund and current contribution levels are sufficient to provide for OMERS plan benefits at their current level. The introduction of a pension indexing formula would impose new liabilities on the fund.



The OMERS plan continues to have a reasonable funding excess out of which ad hoc pension increases are funded. The excess is attributable to continuing better-than-expected investment performance.

The Actuarial Assets *vs* Minimum Liabilities graph (above), illustrates the results of the actuarial valuations over the last 5 years.

The results of the January 1, 1989 valuation are compared to the 1988 valuation in the Actuarial Valuation Results table below.

1988/1989 Actuarial Valuation Results		
(\$ millions)	As at January 1	
	1989	1988
Actuarial Assets	9,314.6	8,249.7
Actuarial Liabilities	8,694.8	7,719.3
Actuarial Surplus	619.8	530.4

Plan Facts

The OMERS plan continues to grow at a steady rate. At December 31, 1989 there were 1,108 Ontario municipalities, school boards and local boards participating in the plan, an increase of 0.9% from one year earlier. Types of participating employers break down as follows:

Municipalities	532
School Boards	134
Public Utilities	187
Local Boards	255
Total	1,108

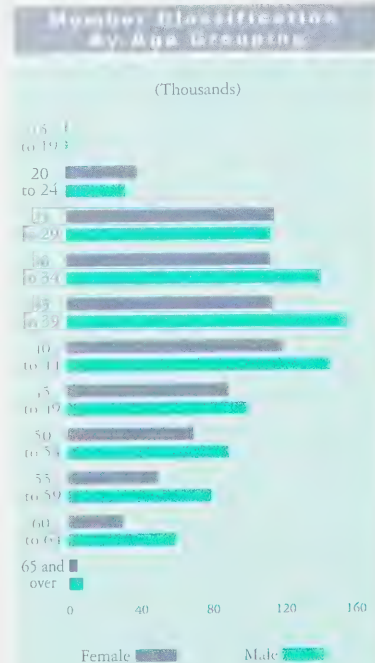
At the end of 1989, 170,998 active members were employed by these participating employers, an increase of 6.3% over 1988. In addition there were 41,687 pensioners and 6,300 deferred vested members (who will receive a pension in the future). Graph 2 illustrates the growth in plan membership over the past five years.

GRAPH 2



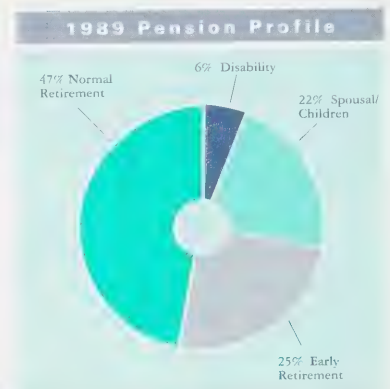
Graph 3 shows member classification by age grouping of the active plan members, 44.5% of whom were female and 55.5% of whom were male.

GRAPH 3



Finally, graph 4 illustrates the 1989 Pension Profile. By far the largest number of pensions are normal retirement pensions, although they are down to 47% of all pensions from 50% in 1988. Early retirement pensions have increased from 23% to 25% and disability pensions are up from 5% to 6% of the total.

GRAPH 4



Further statistical information appears in the Five Year Review of Plan Data on page 5.

Managed Plans

The Pension Division also manages, for a fee, the pension plans of Ryerson Polytechnical Institute, with a net asset market value of \$124.6 million, and of the Ontario Colleges of Applied Arts and Technology (CAAT), with a net asset market value of \$1.3 billion. The Ryerson plan has 1,373 members, and 189 pensioners who received benefits of \$1.2 million in 1989. The CAAT plan has 17,416 members, and 2,463 pensioners who received \$15.4 million in pension benefits in 1989.

Five Year Review of Plan Data

	1989	1988	1987	1986	1985
Employers					
Municipalities	532	526	512	507	504
School boards	134	133	133	132	133
Other local boards	442	439	432	430	426
	1,108	1,098	1,077	1,069	1,063
Members contributing, employed by					
Municipalities	85,228	81,146	74,824	71,703	69,469
School boards	46,768	43,093	38,373	36,158	34,568
Other local boards	39,002	36,614	33,628	32,259	31,061
	170,998	160,853	146,825	140,120	135,098
Members contributing					
Female	76,135	69,678	60,579	56,252	52,880
Male	94,863	91,175	86,246	83,868	82,218
	170,998	160,853	146,825	140,120	135,098
Normal retirement age 65	151,650	142,348	129,292	122,952	116,937
Normal retirement age 60	19,348	18,505	17,533	17,168	18,161
	170,998	160,853	146,825	140,120	135,098
Terminated members who have elected a deferred pension	6,300	5,052	3,908	3,688	3,805
Number of pensioners by type of pension					
Normal retirement	19,739	18,955	18,197	17,291	16,358
Early retirement	10,383	8,996	7,823	6,611	5,719
Disability retirement	2,257	2,128	2,025	1,940	1,843
Spouses and children	9,308	8,701	8,101	7,498	6,961
	41,687	38,780	36,146	33,340	30,881
Total membership comprising Contributing members, deferred pensions, unclaimed death benefits and pensioners	219,136	204,685	186,879	177,148	169,784
Number of members enroled each year	22,306	23,208	18,856	15,563	14,694
Number of members terminated each year	12,161	9,180	12,151	10,541	10,041
Net increases in membership	10,145	14,028	6,705	5,022	4,653

A Changing Environment

The redefinition of investment policies and goals had a significant impact on the administration of the OMERS plan in 1989. The increased investment responsibilities of the Board and the continuing growth and diversification in the Fund required enhanced information handling and additional professional support.

Administrative and computer systems that provide complete investment information have been put in place, improving OMERS communications with external investment professionals.

Custodians, who provide securities safe-keeping, trade settlement, and reporting services to OMERS Administration & Finance and Investment Divisions, are being reviewed. New securities reporting requirements and an increasingly complex investment portfolio have made additional custodial arrangements necessary. Technology providing global on-line data transfer is expected to further improve communications between OMERS and a network of custodians, brokers and external managers.

Financial systems were created for the new subsidiary, OMERS Realty Corporation.

In compliance with the Pension Benefits Act amendments, which created multiple termination options, the pension contribution refund system was improved.

During 1989, OMERS began upgrading information systems for pensioner record-keeping. Improvements to the membership

and benefits systems will follow the completion of this project.

Increased Expenditures

OMERS staff increased by 24 in 1989, to a total of 193, with the greatest increases occurring in the Pension and Administration Divisions. The growth in personnel costs of 21% reflects the continuing implementation of new administrative requirements under the Pension Benefits Act and the demands of the increasing level of investments under administration.



The cost of purchased services, including such major areas as the lease cost of additional office space, computer systems maintenance, and staff training and development, increased 39%. The cost of materials and supplies needed to equip new staff and to update communications materials, increased 33%. Transportation and communication costs, reflecting the cost of improved and expanded telecommunications, rose 18%. The distribution of the

total administrative budget over major areas of expenditure is shown in the graph.

Despite strenuous demands on its resources, OMERS kept administrative expenditures within the 1989 budget guidelines. The graph illustrates the relationship between pension and investment administrative expenditures and the budget guideline over the past five years. The guideline is composed of:

- 1.5% of member and employer current service contributions, which is expected to cover plan administration costs,
- one tenth of 1% of the amortized cost of capital market securities, covering investment administration expenses,
- and management fees paid by the Managed Plans to cover administration costs.

Note: the administration budget for OMERS Realty Corp. for 1989 only has been included to present a continuous graph of consolidated costs and budget guidelines over the five years.

Further demands will be made to the Division's resources in 1990 and beyond as the continuing redevelopment of the Pension Division computer system proceeds. OMERS will also incur additional costs meeting the new reporting requirements of the Federal Government's Tax Reform legislation. The Goods and Services Tax (G.S.T.) will also increase the cost of operation.

Five Year Review of Financial Data

\$Millions	1989	1988	1987	1986	1985
*Investments at market					
Provincial debentures	\$1,205.4	\$1,162.4	\$1,160.8	\$1,232.3	\$1,293.0
Marketable securities	11,117.4	9,245.4	7,819.4	6,972.8	5,676.4
	\$12,322.8	\$10,407.8	\$8,980.2	\$8,205.1	\$6,969.4
*Assets at market available for					
Basic benefits	\$11,163.0	\$9,384.7	\$8,131.9	\$7,411.1	\$6,324.2
Supplementary benefits agreements	109.1	117.1	98.5	86.8	76.6
Administered pension funds	1,466.9	1,222.2	1,040.3	936.4	791.0
	\$12,739.0	\$10,724.0	\$9,270.7	\$8,434.3	\$7,191.8
Investment income earned					
Basic plan	\$916.0	\$715.6	\$828.4	\$716.5	\$569.4
Supplementary benefits agreements	9.7	14.7	10.6	9.7	8.3
Administered pension funds	122.6	95.8	108.4	92.9	73.7
	\$1,048.3	\$826.0	\$947.4	\$819.1	\$651.4
Contributions received for					
Basic plan	\$590.9	\$525.1	\$477.0	\$437.1	\$405.3
Basic plan unfunded liabilities	19.7	19.6	51.6	20.9	59.3
Supplementary benefits agreements	1.5	4.8	3.6	4.0	4.1
	\$612.1	\$549.5	\$532.2	\$462.0	\$468.7
Payments to members					
Pensions paid	\$244.6	\$208.4	\$165.4	\$133.6	\$108.1
Contributions and interest refunded	51.2	31.3	36.3	30.6	27.1
Transfers to other plans	4.1	2.9	3.8	2.2	1.5
	\$299.9	\$242.6	\$205.5	\$166.4	\$136.7
Administrative expenditures and recoveries					
Pension program					
Gross	\$10.6	\$8.4	\$5.6	\$4.2	\$3.6
Fee recoveries	0.7	0.7	0.7	0.6	0.6
Net	\$ 9.9	\$7.7	\$4.9	\$3.6	\$3.0
Investment program	9.7	6.8	6.4	5.3	4.6
	\$19.6	\$14.5	\$11.3	\$8.9	\$7.6
Total fund annual rates of return					
Dollar-weighted return on book value	10.2%	9.1%	12.2%	12.4%	11.7%
Time-weighted return on market value	16.1%	12.1%	5.8%	13.0%	23.6%

* Market Value at December 31

Implementing New Policies

Implementing the new directions and policies adopted by the Board in late 1988 and early 1989 was the major challenge to the Investment Division over the past year.

The Division was reorganized to accommodate increased investment in equities and real estate. A separate wholly-owned real estate subsidiary (OMERS Realty Corporation) was set up to manage the Fund's real estate assets. To achieve better balance between internally and externally managed funds, OMERS chose external investment counsellors to manage active and passive (index matching) Canadian equity funds.

The OMERS Statement of Investment Policies and Goals was revised to conform to the new directions and the Pension Benefits Act, 1987. The statement was filed with the Pension Commission of Ontario in December.

Economic Environment

The OMERS Fund turned in another strong performance in



1989 in spite of the rapidly changing economic environment. Yield curves were inverted or near-inverted (short term yields were higher than long term) all year and high corporate and government debt kept interest rates high. These conditions threatened to bring the longest post-war economic expansion to an end and, by year end, there were signs of an economic slowdown:

- The Canadian economy grew at a rate of 2.9%, down from 5.0% in 1988.
- The unemployment rate crept up from 7.7% to 7.8% at year end.

- The Consumer Price Index rose from 4.0% in December 1988 to 5.4% by late summer 1989, easing slightly to 5.1% by year end.
- The Bank of Canada attacked inflation by pushing the bank rate up by 1.3 percentage points during the year.
- The difference between Canadian and American interest rates pushed the Canadian dollar from U.S. 83.6 cents to U.S. 86.1 cents.

High Returns

The OMERS Fund reported an overall return of 16.1%, the highest return since 1985 and above the median fund return of 15.9% for balanced Canadian pension funds. The graph (left) illustrates the OMERS Fund returns over the past five years compared with the median fund returns.

The average annual return for the five years, 1985 to 1989 inclusive, was 13.9%, compared with the median fund return for the same period of 13.6%. The



Total Returns*

	1989	1988	1985-1989
Ontario Debentures	14.4	10.6	13.9
Marketable Bonds	13.1	10.7	12.7
Mortgages	12.6	10.2	13.1
Term Loans	15.4	10.9	13.9
Canadian Stocks	19.7	17.1	14.2
Foreign Stocks	23.3	7.0	16.8
Private Placements	3.8	7.7	10.5
Real Estate	15.3	16.0	12.2
Portfolio Average Return	16.1	12.1	13.9

*including unrealized gains or losses

Total Return table shows the total returns by major asset class at December 31, 1988 and 1989, and the average annual rate of return for the five year period from 1985 through 1989.

Realized capital gains amounted to \$230.6 million in 1989, while other investment income totalled \$817.7 million. Total from assets under administration was \$1,048.3 million.

Equity returns exceeded fixed income returns over both one and five year periods. Higher returns from equities are expected to provide a better match for the OMERS Fund's long term liability structure than fixed income investment returns.

Equities

Stock markets posted very strong gains in 1989. The Toronto Stock Exchange achieved a 21.4% rate of return while in the U.S., the Standard and Poor's 500 increased by 27.8%. The Morgan

Stanley World Index ended the year with a gain of 14.1%.

Acting within the authority granted by the Board to increase the percentage of equities in the Fund to 55% of the total portfolio, the Investment Division invested \$658 million in passive (index matching) funds and an additional \$260 million in external actively managed funds by year end. OMERS internal investment managers invested a further \$307 million in Canadian equities and \$71 million in U.S. equities during 1989. Together with market gains this raised equity investments, including private placements, to \$6.6 billion or 53.5% of the total assets by the end of 1989 compared with \$4.7 billion or 45.2% at the end of 1988.

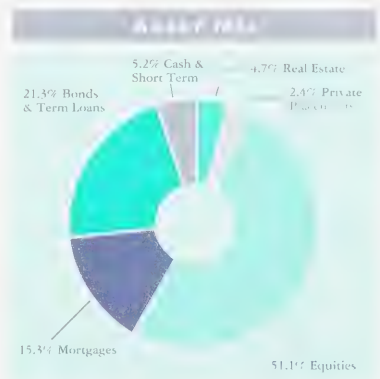
OMERS equity portfolios are invested in a wide variety of industries and are structured to provide attractive rates of return over the longer term. Internally, the strategy continues to be one of

emphasizing strong balance sheets and superior investment value.

Investment performance for 1989 was enhanced by a number of tender offers made for various equity holdings. These included Consolidated Bathurst, Texaco Canada and Redpath Industries in the Canadian Core Fund, and Reff Inc., Polymer International and Mineral Resources International in the Small Capitalization Fund. The U.S. portfolio derived a similar benefit when Squibb Corporation merged with Bristol Myers Company.

The Total Fund Assets graph (previous page) illustrates the increasing role of equities in the changing asset mix over the past five years. The Asset Mix graph (below) indicates the portion of the total portfolio devoted to each type of investment.

Looking toward 1990, greater emphasis will be placed on Global equities. These investments will become a more significant part of OMERS equity assets, particularly when legislation to



increase the 10% restriction on foreign investments is enacted.

Private placements include a broad spectrum of primarily equity investments not offered for sale to the public, including venture capital and other pooled funds, limited partnerships, and direct investments in resource properties.

The 1989 private placements investment strategy was to emphasize co-investments and joint ventures in resource properties. As in real estate development, many venture capital and resource development situations are expected to produce high returns only after a long development period.

Fixed Income Investments

In both Canada and the U.S., the fight against inflation resulted in the continuation of high short term interest rates in 1989. By year end, the Bank of Canada Rate had risen from 11.19% to 12.47%, while the U.S. Federal Funds Rate declined to 8.25% from 9.31%. This gradual easing in the U.S. resulted in a 4.6 percentage point spread between Canadian and U.S. short term rates which, in turn, led to a strong Canadian dollar.

Canadian long term bond rates fell from 10.0% to 9.40% at year end. Average bond yields increased from 10.9% to 11.3% while the average term was reduced from 7.1 to 6.3 years in the OMERS portfolio.

The bond portfolio provided some of the cash necessary to fund the shift to a greater emphasis on equities in 1989 while maintaining a good rate of return (13.1% in 1989). Bond holdings were reduced by \$543 million to 19.1% of the total portfolio at year end.

OMERS adopted a strategy of allowing lower-yielding government insured mortgages to be repaid and concentrating on higher-yielding commercial mortgages in 1989. Although the rate of return on mortgage investments was only 12.6% in 1989,



and was exceeded in this period of abnormally high interest rates by short term bonds and term loans, mortgages remain stable investments necessary in a balanced portfolio.

The term lending portfolio, which provides term financing to small and medium sized Canadian corporations, increased in size from \$248 million at year end 1988 to \$274 million by year end 1989. OMERS sought out larger investment opportunities in 1989,

increasing the average loan size from \$3.1 million to \$3.5 million. The quality of the term lending portfolio remained high, with a rate of return of 15.4%, despite slowing economic growth.

OMERS Realty Corporation

The formation of a separate real estate subsidiary was completed in 1989. The total market value of real estate assets increased by \$92 million, from \$482 million at the end of 1988 to \$574 million at December 31, 1989. Investment in the development of Phase I of BCE Place, the Canada Trust Tower, at Bay and Front Streets in downtown Toronto accounted for a large part of the increase. OMERS also purchased a 50% interest in the North American Life Centre, a mixed-use office and retail complex at Yonge Street and Finch Avenue in the City of North York. These investments were partially offset by the sale of real estate investment vehicles and pooled funds.

Real estate development is a long term investment programme characterized by high expenditures and low returns in the early years of project development. Historically, however, real estate has offered high returns with low volatility. These characteristics make real estate particularly suitable for the OMERS portfolio.

Consolidated Investment Fund Assets

Market Value as at December 31 (000's)		1989	1988
Debt Investments			
Cash - Current Accounts	\$	5,684	\$ 5,114
Short Term Investments		638,437	245,917
Subtotal		644,121	251,031
Ontario Debentures		1,205,351	1,162,425
Marketable Bonds			
Government of Canada		298,049	445,961
Provincial		308,008	536,840
Municipal		12,324	27,270
Corporate		62,115	131,112
Eurodollar/Index Linked		59,066	31,616
Mid Term Notes		408,503	477,663
Subtotal		1,148,065	1,650,462
Term Loans		274,469	247,525
Mortgages			
Residential - NHA Insured		1,178,417	1,277,943
Commercial - Uninsured		524,499	448,740
Bonds		177,811	179,824
Subtotal		1,880,727	1,906,507
Total Debt Investments	\$	5,152,733	\$ 5,217,950
Equity Investments			
Stocks			
Canadian	• Core Fund	4,101,958	3,273,332
	• Small Capitalization Fund	114,322	107,120
	• Index Funds	677,893	0
	• Externally Managed Funds	210,486	117,424
Foreign	• U.S. Fund	764,474	580,712
	• U.S. Mutual Funds	196,101	164,419
	• Global Managed Funds	235,011	197,662
Subtotal		6,300,245	4,440,669
Private Placements		296,202	267,467
Total Equity Investments	\$	6,596,447	\$ 4,708,136
Real Estate			
Land and Buildings		487,042	292,435
Fund Units		0	21,005
Equity Interests		23,471	43,305
Participating Bonds/Notes Rec.		63,091	124,944
Total Real Estate	\$	573,604	\$ 481,689
TOTAL FUND AT MARKET VALUE		\$12,322,784	\$10,407,775

Unaudited figures



AN INDEPENDENT WORLDWIDE BENEFITS
AND COMPENSATION CONSULTING FIRM

ACTUARIAL COST CERTIFICATE AS AT DECEMBER 31, 1989
for the

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the Ontario Municipal Employees Retirement System was conducted as at January 1, 1989 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The results of the actuarial valuation disclosed total Actuarial Liabilities of \$8,694.769 million in respect of benefits accrued for service prior to January 1, 1989. The Actuarial Assets at that date were \$9,314.576 million indicating an actuarial surplus or Funding Excess of \$619.807 million.

The results of the actuarial valuation also indicated that the existing levels of employee and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1989 taking into account the amendments made to the Plan up to December 31, 1989. Further, we have calculated the Actuarial Assets at December 31, 1989.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1989 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted

THE WYATT COMPANY

Munir Dewji, F.S.A.

Fellow, Canadian Institute of Actuaries

April 6, 1990



Peat Marwick Thorne

Chartered Accountants

Peat Marwick Thorne Building
Suite 1200
One Toronto Street
Toronto, Ontario M5C 2V5

Telephone (416) 777-8500
Telex 06-23447
Telefax (416) 777-8818

AUDITORS' REPORT

To the Ontario Municipal Employees Retirement Board

We have examined the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1989 and the consolidated statement of changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Fund as at December 31, 1989 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script that reads 'Peat Marwick Thorne'.

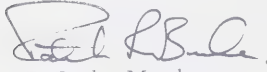
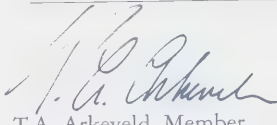
Chartered Accountants

Toronto, Canada

April 6, 1990

Ontario Municipal Employees Retirement Fund

Consolidated Statement of Net Assets

December 31 (000's)	1989	1988
ASSETS		
Investments (note 1)	\$12,322,784	\$10,407,775
Long term receivables (note 2)	129,713	146,265
Fixed assets (note 3)	1,423	1,349
Contributions receivable	51,196	47,320
Accrued income	255,161	153,842
	<u>12,760,277</u>	<u>10,756,551</u>
LIABILITIES		
Due to administered pension funds (note 4)	1,466,940	1,222,153
Provision for unreduced early retirement benefits (note 5)	109,051	117,081
Due to brokers	21,285	32,575
	<u>1,597,276</u>	<u>1,371,809</u>
NET ASSETS (note 6)	<u>\$11,163,001</u>	<u>\$ 9,384,742</u>
SIGNED ON BEHALF OF THE BOARD		
 P.R. Burke, Member	 T.A. Arkeveld, Member	

Consolidated Statement of Changes in Net Assets

Year ended December 31 (000's)	1989	1988
INCREASES IN NET ASSETS		
Contributions (note 7)	\$ 612,070	\$ 545,551
Investment income (note 8)	915,952	715,598
Unrealized market appreciation of investments	569,823	248,823
	<u>2,097,845</u>	<u>1,509,972</u>
DECREASES IN NET ASSETS		
Benefits (note 9)	299,939	242,564
Administrative expenditures (note 10)	19,647	14,538
	<u>319,586</u>	<u>257,102</u>
INCREASE IN NET ASSETS	<u>1,778,259</u>	<u>1,252,870</u>
Net assets at beginning of year	9,384,742	8,131,872
NET ASSETS AT END OF YEAR	<u>\$11,163,001</u>	<u>\$9,384,742</u>

Ontario Municipal Employees Retirement Fund

Notes to Consolidated Financial Statements

Year ended December 31, 1989

(000's)

General

The Ontario Municipal Employees Retirement System ("OMERS") is registered under the Pension Benefits Act of Ontario, Registration #C006725.

Summary of Significant Accounting Policies

Consolidation

Certain of the Fund's term loan, real estate and resource investments are held by wholly owned subsidiaries. The consolidated financial statements include the accounts of the Fund and all subsidiaries.

Investments

Investments are stated at market value and are recorded as of the trade date. Securities are valued at year end quoted market prices where available. Where quoted market values are not available, estimated values are calculated by discounting cash flows based on market yields, using cyclical real estate appraisals, or comparative securities.

Gains and losses on disposal of investments are credited or charged to investment income. Investment income is recorded on the accrual basis.

Contributions

Member and employer contributions received subsequent to the year-end, but which are applicable to the current year, are recorded as receivable.

Benefits

Payments for benefits are recorded in the year in which such payments are made.

Fixed Assets

Computer equipment is recorded at cost and is depreciated on a straight-line basis over five years.

1. Investments

	1989		1988	
	Market Value	Cost	Market Value	Cost
Cash and short term deposits	\$ 644,121	\$ 644,121	\$ 251,031	\$ 251,031
Canadian bonds and debentures	2,353,416	2,440,508	2,812,887	2,966,225
Term loans	274,469	268,528	247,525	247,649
Mortgages	1,880,727	1,831,917	1,906,507	1,863,219
Canadian equities	5,104,659	4,204,180	3,431,066	2,936,588
Non-Canadian equities	999,485	792,910	772,192	697,535
Mutual funds	196,101	142,877	237,411	195,451
Real estate	496,256	400,709	320,099	266,745
Real estate debentures	77,348	62,193	161,590	124,993
Venture capital	93,289	97,047	94,576	94,443
Resource properties	79,507	74,627	70,615	70,237
Private placements	123,406	115,604	102,276	94,442
	\$12,322,784	\$11,075,221	\$10,407,775	\$9,808,558

Ontario Municipal Employees Retirement Fund

Notes to Consolidated Financial Statements (cont.)

Year ended December 31, 1989

(000's)

Canadian bonds and debentures include Province of Ontario debentures having a cost of \$1,293,025 (1988 - \$1,293,025), bearing a weighted average interest rate of 9.07% and maturing at various dates beginning on December 31, 1993 through December 31, 2006.

At December 31, 1989, the Fund held individual investments whose market or cost value exceeded 1% of the market or cost value of investments in total:

	Number of Investments	1989 Aggregate	
		Market Value	Cost
Canadian equities	9	\$1,541,189	\$1,120,307
Real Estate under development	1	155,055	155,055
		\$1,696,244	\$1,275,362

2. Long Term Receivables

Under the terms of The Ontario Municipal Employees Retirement System Act certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long term receivables to be paid, with interest, over a period not to exceed fifteen years.

3. Fixed Assets

	1989		1988
	Cost	Accumulated depreciation	Net
Computer Equipment	\$ 2,931	\$ 1,622	\$ 1,309
Other Equipment	143	29	114
	\$ 3,074	\$ 1,651	\$ 1,423

4. Due to Administered Pension Funds

The administered pension funds which form part of the Fund, are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnical Institute, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

5. Provision for Unreduced Early Retirement Benefits

Certain participating employers have entered into agreements with the Board for provision of unreduced early retirement benefits in addition to those provided by OMERS. Funding is provided by additional contributions. An actuarial valuation is performed every three years. Where actuarial liabilities exceed actuarial assets for individual groups a series of special payments has been established to eliminate the deficiency.

The most recent actuarial valuation was performed at January 1, 1987. On an overall basis the actuarial assets exceeded the actuarial liabilities for the participating groups.

Ontario Municipal Employees Retirement Fund

Notes to Consolidated Financial Statements (cont.)

Year ended December 31, 1989

(000's)

6. Net Assets

The Fund is maintained for the payment of pensions to retired members or their beneficiaries and the future payment of pensions and benefits to contributing members and to terminated members who have elected a deferred pension.

The latest actuarial valuation of OMERS as at January 1, 1989 determined the total actuarial liabilities of OMERS to be \$8,694.769 million using the unit credit actuarial cost method. The actuarially adjusted book value of accumulated assets at that date was \$9,314.576 million resulting in a funding excess of \$619.807 million.

The results of the actuarial valuation indicate that the existing levels of member and employer contributions are sufficient to meet the normal actuarial cost of benefits earned during 1989. Further, the System was fully funded at December 31, 1989.

7. Contributions

	1989	1988
Members	\$ 295,803	\$ 263,023
Employers, current service	295,125	262,049
Employers, long term receivables and interest thereon (note 2)	19,654	19,574
Unreduced early retirement benefits (note 5)	1,488	905
	<u>\$ 612,070</u>	<u>\$ 545,551</u>

8. Investment Income

	1989	1988
Short term deposits	\$ 56,546	\$ 57,322
Canadian bonds and debentures	270,827	287,787
Term loans	32,336	27,182
Mortgages	220,211	191,143
Canadian equities	160,117	95,742
Non-Canadian equities	25,951	14,938
Mutual funds	19,523	18,717
Real estate	16,045	14,604
Real estate debentures	9,357	9,414
Venture capital	(1,965)	306
Resource properties	1,919	3,053
Private placements	6,801	4,459
	<u>817,668</u>	<u>724,667</u>
Realized capital gains	230,635	101,380
	<u>1,048,303</u>	<u>826,047</u>
Less income credited to:		
Administered pension funds	(122,641)	(95,775)
Provision for unreduced early retirement benefits	(9,710)	(14,674)
	<u>\$ 915,952</u>	<u>\$ 715,598</u>

Ontario Municipal Employees Retirement Fund

Notes to Consolidated Financial Statements (cont.)

Year ended December 31, 1989

(000's)

Benefits

	1989	1988
Members' pensions	\$ 244,639	\$ 208,366
Members' contributions plus interest refunded	51,172	31,321
Transfers to other pension plans	4,128	2,877
	<u>\$ 299,939</u>	<u>\$ 242,564</u>

10. Administrative Expenditures

	1989	1988
Personnel services	\$ 9,497	\$ 7,829
Transportation & communication	846	716
Audit services	271	202
Legal services	132	129
Other professional services	2,381	1,254
Other purchased services	4,525	3,113
Materials & supplies	2,731	2,044
	<u>\$ 20,383</u>	<u>\$ 15,287</u>
Less: Management fees from administered pension funds	736	749
	<u>\$ 19,647</u>	<u>\$ 14,538</u>

Board of Directors

Chairman,
Mr P. R. Burke,
Firefighter, City of Windsor

Vice-Chairman,
Mr T. A. Arkeveld,
Supt. of Business and Treasurer,
Leeds and Grenville County
Board of Education

Mr T. D. Allan,
Police Officer,
Durham Regional Police Force

Ms N. Bardecki,
Director, Municipal Finance Branch,
Ministry of Municipal Affairs

Mr C. M. Beckstead,*
Chief Administrative Officer,
City of Nepean

Mr C. R. Bernardi,*
Director of Personnel and
Labour Relations,
City of Sault Ste. Marie

Mr S. P. Dobbin,*
Stationary Engineer,
Toronto Board of Education

Ms D. F. Graber,
Administrative Supervisor,
Dept. of Transportation,
Municipality of
Metropolitan Toronto

Mr A. J. Roberts,*
Consumer Relations Representative,
St. Catharines
Hydro Electric Commission

Mr J. V. Sherlock,
Trustee,
Halton Roman Catholic
School Board

Mr B. Sinclair,
Mayor, The City of Etobicoke

*The following new Directors joined the
Board as of January, 1990:*

Mr R. S. Clark,
Chief Administrative Officer,
Regional Municipality of
Ottawa-Carleton

Ms A. Dubas,
Public Health Nurse,
City of Toronto

Mr G. Lawson,
Commissioner of Finance
& Treasurer,
Regional Municipality of
Hamilton-Wentworth

Ms S. Peebles,
Parental Support Worker,
Algoma District Social Services

Investment Committee, Board Members

Mr P. R. Burke

Mr C. R. Bernardi

Mr S. P. Dobbin

Mr A. J. Roberts

Mr B. Sinclair

Investment Committee, Specialist Members

Chairman,
Mr R. M. MacIntosh,
Canadian Bankers' Association

Vice-Chairman,
Mr J.C.C. Wansborough,
OMERS Realty Corporation

Mr D. Pretty,
Pretty Consultants Inc.

Mr D. Purdy,
Crown Life Insurance Co.

Management Committee

Mr P. R. Burke

Mr T. A. Arkeveld

Mr T. D. Allan

Ms N. Bardecki

Mr C. M. Beckstead

Ms D. F. Graber

Mr J. V. Sherlock

Senior Officers

Mr A. W. Reeve,
Executive Director

Mr R. L. Silcox,
Director, Investment Division

Mr M. E. Beswick,
Director, Pension Division

Ms M. J. Bevan,
Director, Human Resources

Mr R. W. Gladstone,
Director, Administration &
Finance Division

Advisors to the Board

Actuary,
The Wyatt Company

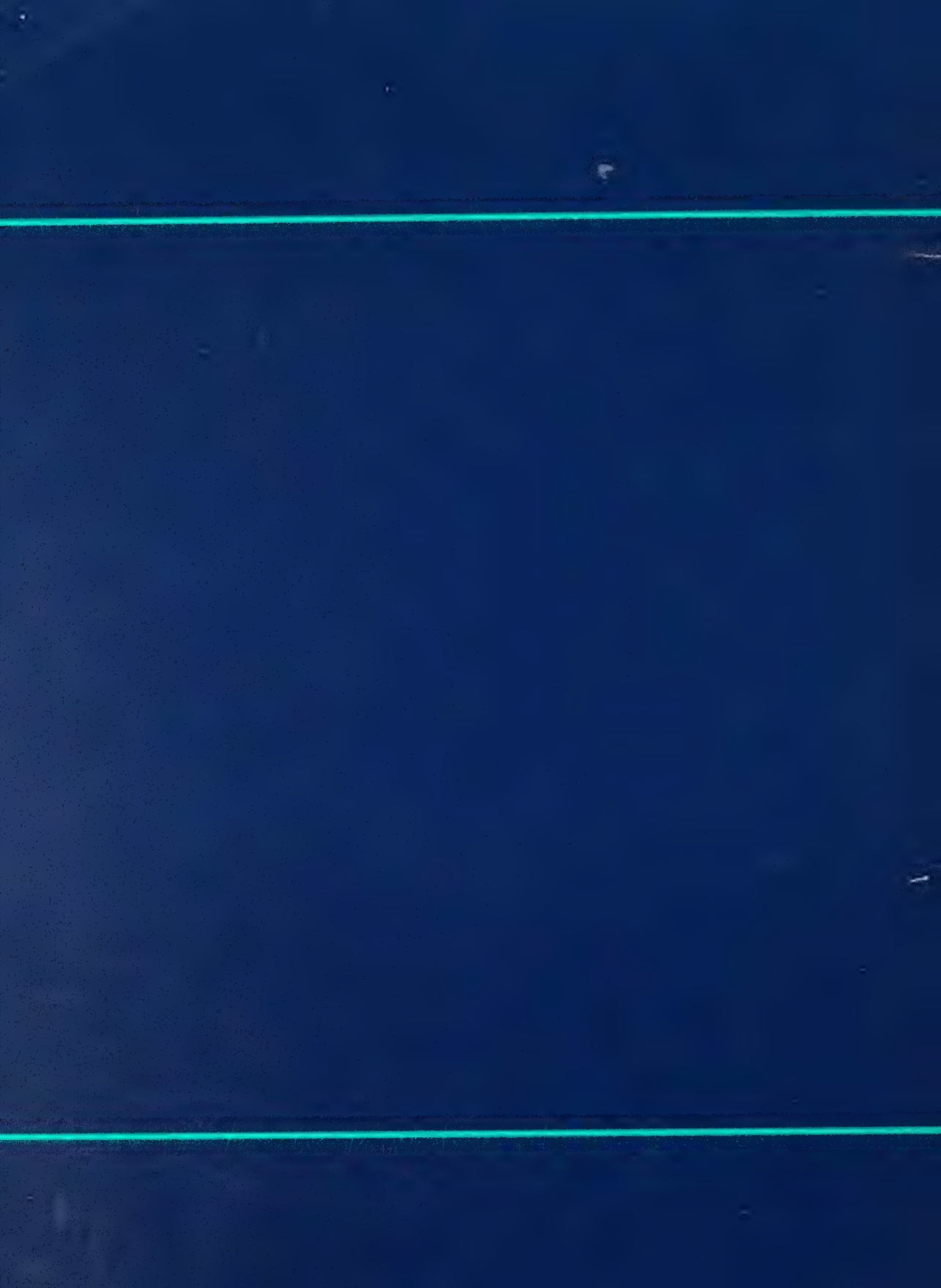
External Auditors,
Peat Marwick Thorne

Internal Auditors,
BDO Ward Mallette

Legal Advisors,
Osler, Hoskin & Harcourt

Medical Advisor,
Dr C. West

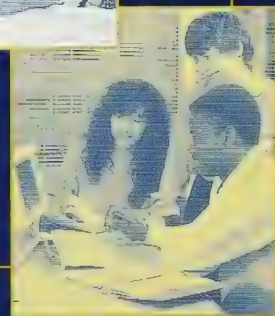
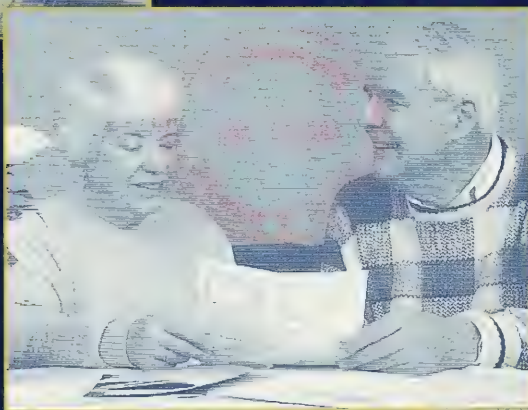
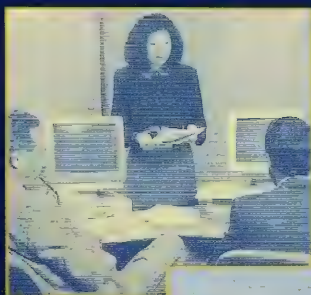
** The four members marked with an asterisk left the Board of Directors in
December, 1989, after many years of service.*



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Annual Report *1990*



*Working Together
for Your Retirement*

Directors

CHAIRMAN

Mr T. A. Arkeveld
Supt. of Business and
Treasurer, Leeds and
Grenville County Board
of Education

VICE-CHAIRMAN

Mr T. D. Allan
Police Officer, Durham
Regional Police Force

Ms N. Bardecki
Director, Municipal
Finance Branch, Ministry
of Municipal Affairs

PAST CHAIRMAN

Mr P. R. Burke
Firefighter,
City of Windsor

Mr R. S. Clark
Chief Administrative
Officer, Regional
Municipality of
Ottawa-Carleton

Ms A. Dubas
Public Health Nurse,
City of Toronto

Ms D. F. Graber
Administrative Supervisor,
Dept. of Transportation,
Municipality of
Metropolitan Toronto

Mr G. Lawson
Commissioner of Finance
& Treasurer,
Regional Municipality of
Hamilton-Wentworth

Ms S. Peebles

Parental Support Worker,
Algoma District Social
Services

Mr J. V. Sherlock
Trustee,
Halton Roman Catholic
Separate School Board

Mr B. Sinclair
Mayor,
The City of Etobicoke

***Investment
Committee***

CHAIRMAN

Mr T. D. Allan

VICE-CHAIRMAN

Mr J. V. Sherlock

Mr T. A. Arkeveld

Ms N. Bardecki

Mr P. R. Burke

Mr A. Fell
RBC Dominion
Securities Ltd.

Mr D. Purdy
Crown Life Insurance Co.

Mr B. Sinclair

***Management
Committee***

CHAIRMAN

Mr G. Lawson

VICE-CHAIRMAN

Ms D. F. Graber

Mr P. R. Burke

Mr R. S. Clark

Ms A. Dubas

Ms S. Peebles

Senior Officers

Mr A. W. Reeve
Executive Director

Mr M. E. Beswick
Director,
Pension Division

Ms M. J. Bevan
Director,
Human Resources

Mr R. W. Gladstone
Director,
Administration Division

Mr R. L. Sillcox
Director,
Investment Division

Advisors to the Board

ACTUARY

The Wyatt Company

AUDITORS

Peat Marwick Thorne

LEGAL ADVISOR

Osler, Hoskin & Harcourt

MEDICAL ADVISOR

Dr C. West

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Ontario Municipal Employees Retirement System

The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 by the Ontario Government as a multi-employer pension plan for employees of local governments in Ontario. Some 1,120 municipalities, local boards and school boards participate in the OMERS plan. OMERS also manages the pension plans of Ryerson Polytechnical Institute and the Colleges of Applied Arts and Technology.

Managed by a Board appointed by the Ontario Government, OMERS is operated by and for municipal employees. Eight members of the Board are employees of participating employers, two members are elected or appointed officials of municipalities or local boards, and one member is a Provincial official.

OMERS is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund. OMERS is committed to providing appropriate and secure pension benefits for plan members while keeping member and employer contribution rates reasonable and stable.

The OMERS Board met the challenges of 1990 with renewed vigour and commitment to the principle of service. We welcomed four new Board members in January, 1990. Mr Ron S. Clark of Ottawa-Carleton Region, Ms Anne Dubas of the City of Toronto, Mr Gerry Lawson of Hamilton-Wentworth Region and Ms Shirley Peebles of Algoma District Social Services brought varied municipal experience and new insights to OMERS during the year.

In 1990 the Board and its staff adopted the motto *Working Together for Your Retirement* as the OMERS "reason for being". We believe this phrase truly reflects the complex relationships inherent in the work of OMERS. We work with each other, with the Province and with participating municipal employers. We work with members, pensioners and their representatives. We work with consultants, brokers, bankers, auditors, custodians and fund managers. Together we work for the good of the OMERS members, pensioners and employers.

The Board also adopted statements of two fundamental values: *We provide high quality service to all our clients* and *We treat each other with respect, fairness, trust and dignity*. Service is vital to OMERS, and we strive to ensure that the service we provide is of the highest quality. We believe we must treat each other, and those with whom we interact, with respect, trust and dignity if we are to achieve the high standard of service we have set for ourselves.

The September change of Government in Ontario understandably slowed the passage of the Board's proposals to amend the OMERS plan. The proposals are now before the Honourable David Cooke, Minister of Municipal Affairs and Housing, for review, and the Board hopes they will be approved in 1991. The proposed changes include contractual indexing with a consequent contribution rate increase, 30-year early retirement (within 10 years of normal retirement), spousal benefit for marriage after retirement and individual past service buy-backs.

The OMERS Board requested an *ad hoc* pension increase for January 1991, and the Minister moved quickly to obtain Government approval. The pension increase of 4.2% was equal to 100% of the inflation rate for the measurement period. Pensioners were also granted an inflation protection increase ensuring that their increases equal at least 75% of the inflation rate since their pensions began.

Amendments to the Federal Income Tax Act, passed in June 1990, created a whole new method of evaluating individual pension entitlements for plan members and reporting them to Revenue Canada. The amendments will have a profound effect on retirement savings and pension plans in Canada. OMERS staff poured their energy into understanding the changes, revising plan administration systems and communicating the new approach to members and employers.

1990 was a year of global political change and economic reversals, resulting in declining investment markets worldwide. Throughout the year the OMERS Fund managers maintained investment discipline in the pursuit of long-term goals estab-

*Working
Together
for Your
Retirement*

lished in 1989. The reinvestment of funds and the distribution of new capital in appropriate market sectors brought the Fund closer to asset mix targets. A significant equity investment programme late in the year, when global markets neared their lowest, left the Fund well positioned to gain from expected market growth in 1991. The OMERS Fund remains strong and committed to quality investments in a diversified portfolio that will ensure long-term growth, enabling the plan to meet its inflation-driven obligations.

For OMERS, 1990 was a year of challenge met with renewed confidence and energy. We shall continue our commitment to high quality service in 1991, as we work together to provide a sound retirement system for OMERS members, employers and pensioners.

A handwritten signature in dark ink, appearing to read 'T. A. Arkeveld', written in a cursive style.

T. Andreas Arkeveld,
Chairman

Focus on Service

The Pension Division focused on service in 1990, making notable improvements in the areas of pension claim processing, communications and the annual reporting of contributions.

In June the Federal Government passed amendments to the Income Tax Act that have far-reaching implications for OMERS, its members and employers. Complex new reporting rules affect pension plan administrators and employers, and the determination of plan members' RRSP contribution room has changed effective 1991. Plan revisions, including the introduction of maximum pension limits and changes to disability and children's pension eligibility, will have to be made to the OMERS plan beginning in 1992 in order to comply with the new tax law.

The OMERS staff worked hard to understand the changes and to ensure that the application of the law was workable. The Communications Department undertook an extensive series of seminars across Ontario explaining the tax changes to OMERS employers. The *Employer Guide to the Federal Income Tax Act Changes*, published in September, helped administrators understand and apply the new rules.

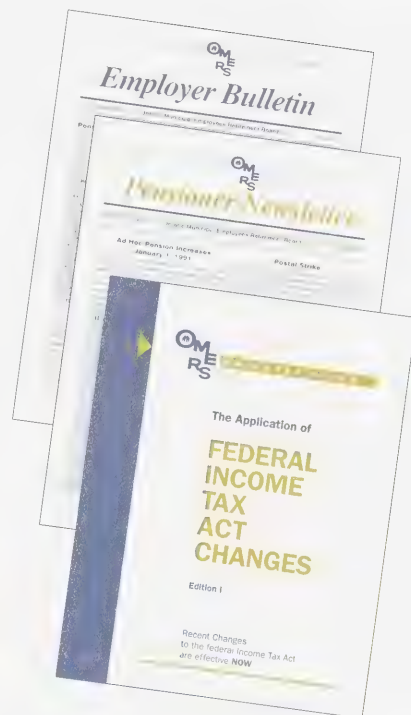
The Communications Department also introduced a very popular *Pensioner Newsletter*. Other materials were redesigned and improved: employer administrative information letters were consolidated in a regularly published *Employer Bulletin*, and the procedure guide for the annual reconciliation of contributions was revised.

A Client Services group was established as a centralized information service to answer member and employer queries. The group has its own telephone number, (416) 369-2444, with new phone features designed to improve service.

The Pension Division expanded French language services. More OMERS publications were offered in translation, and two bilingual Communications Officers were hired.

OMERS pensions that began on or before October 1, 1989 received an increase of 4.2% on January 1, 1991. The ad hoc increase was equal to 100% of the inflation rate for the period September 1989 to September 1990. Pensions that began after October 1, 1989 but before October 1, 1990 were increased by a prorated amount. An additional increase was applied to many pensions to ensure that they "caught-up" to at least 75% of the inflation rate since they began. Pensions that began on or before December 1, 1989 also received a one-time only payment equal to 6 months of the 4.2% inflation increase to make up for the 6 month delay caused by changing the usual date of pension increases from July to January.

This is the 6th consecutive year that the OMERS ad hoc pension increase has equalled the rise in inflation for the year. The increase was funded from the actuarial surplus.



FIVE YEAR REVIEW OF PLAN DATA

	1990	1989	1988	1987	1986
<i>Employers</i>					
Municipalities	541	532	526	512	507
School boards	134	134	133	133	132
Other local boards	445	442	439	432	430
	<u>1,120</u>	<u>1,108</u>	<u>1,098</u>	<u>1,077</u>	<u>1,069</u>
<i>Contributing Members</i>					
<i>by employer</i>					
Municipalities	89,645	85,228	81,146	74,824	71,703
School boards	49,570	46,768	43,093	38,373	36,158
Other local boards	41,323	39,002	36,614	33,628	32,259
	<u>180,538</u>	<u>170,998</u>	<u>160,853</u>	<u>146,825</u>	<u>140,120</u>
<i>by sex</i>					
Female	81,940	76,135	69,678	60,579	56,252
Male	98,598	94,863	91,175	86,246	83,868
	<u>180,538</u>	<u>170,998</u>	<u>160,853</u>	<u>146,825</u>	<u>140,120</u>
<i>by normal retirement age</i>					
Age 65	157,831	151,650	142,348	129,292	122,952
Age 60	22,707	19,348	18,505	17,533	17,168
	<u>180,538</u>	<u>170,998</u>	<u>160,853</u>	<u>146,825</u>	<u>140,120</u>
<i>Terminated members who have elected a deferred pension</i>					
	<u>7,107</u>	<u>6,300</u>	<u>5,052</u>	<u>3,908</u>	<u>3,688</u>
<i>Number of pensioners by type of pension</i>					
Normal retirement	20,577	19,739	18,955	18,197	17,291
Early retirement	11,760	10,383	8,996	7,823	6,611
Disability pension	2,447	2,257	2,128	2,025	1,940
Spouses and children	9,886	9,308	8,701	8,101	7,498
	<u>44,670</u>	<u>41,687</u>	<u>38,780</u>	<u>36,146</u>	<u>33,340</u>
<i>Total membership comprising</i>					
Active members, inactive members and pensioners	<u>232,371</u>	<u>219,136</u>	<u>204,685</u>	<u>186,879</u>	<u>177,148</u>
<i>Number of members enrolled each year</i>					
	22,673	22,306	23,208	18,856	15,563
<i>Number of members terminated each year</i>					
	13,133	12,161	9,180	12,151	10,541
Net increase in membership	<u>9,540</u>	<u>10,145</u>	<u>14,028</u>	<u>6,705</u>	<u>5,022</u>

Over the past 3 years the OMERS Board has proposed to the Ontario Government a number of changes to the pension plan, including:

- guaranteed inflation protection to 75% of the CPI increase (maximum 8% CPI increase with a carry-over to future years), funded by a contribution increase of 0.5% from both members and employers;
- unreduced pension after 30 years of credited service (within 10 years of normal retirement age);
- a pension payable to the surviving spouse of a post-retirement marriage;
- individual purchase of pensionable past public or war service.

The Honourable David Cooke, Minister of Municipal Affairs and Housing, is currently considering these amendments to the OMERS plan. Although the change of government in Ontario in September necessarily slowed the passage of the proposals, the Board hopes they will be passed in 1991.

The OMERS December 31, 1989 actuarial valuation, prepared by The Wyatt Company, shows that the current contribution levels and financial position of the Fund are sufficient to provide for existing OMERS plan benefits. The plan continues to have a reasonable actuarial surplus of \$991 million. Pension increases and benefit improvements have been funded from the plan surplus since 1978.

The System is still growing. The number of participating employers increased by 1%, active membership increased by 5.6%, deferred pensions increased by 12.8%, and the number of pensioners increased by 7.2%. Pensioners are proportionately the fastest growing segment of the System, and their numbers are expected to continue to rise faster than the active membership. Further statistical information appears in the Five Year Review of Plan Data on page 4, opposite.

As the OMERS plan continues to grow, we strive to ensure that the service we provide to the members, pensioners and employers who make up the System is of the highest quality.

Managed Plans

OMERS manages, for a fee, the pension plans of Ryerson Polytechnical Institute, with a net asset market value of \$124.2 million, and the Ontario Colleges of Applied Arts and Technology (CAAT), with a net asset market value of \$1.3 billion. The Ryerson plan has 1,398 members, and 208 pensioners who received benefits of \$1.5 million in 1990. The CAAT plan has 17,938 members, and 2,759 pensioners who received \$18.7 million in pension benefits in 1990.

Actuarial Assets vs Minimum Liabilities
(\$ Billions)

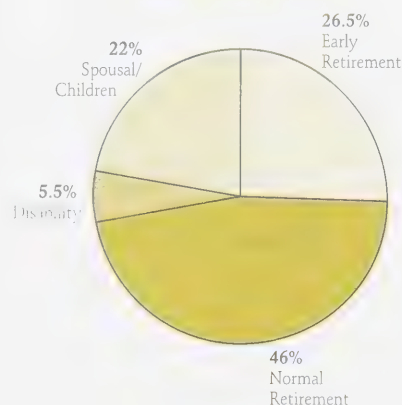


Actuarial Valuation Results

(Millions)	as at December 31	
	1989	1988
Actuarial Assets	\$10,696.0	\$9,314.6
Actuarial Liabilities	9,705.0	8,694.8
Actuarial Surplus	991.0	619.8

(see Consolidated Financial Statements, Note 6)

1990 Pension Profile



FIVE YEAR REVIEW OF FINANCIAL DATA

Millions	1990	1989	1988	1987	1986
<i>Investments at market*</i>					
Provincial debentures	\$1,143.3	\$1,205.4	\$1,162.4	\$1,160.8	\$1,232.3
Marketable securities	11,318.2	11,117.4	9,245.4	7,819.4	6,972.8
	<u>\$12,461.5</u>	<u>\$12,322.8</u>	<u>\$10,407.8</u>	<u>\$8,980.2</u>	<u>\$8,205.1</u>
<i>Assets at market* available for</i>					
Basic benefits	\$11,139.8	\$11,163.0	\$9,384.7	\$8,131.9	\$7,411.1
Supplementary benefits	117.0	109.1	117.1	98.5	86.8
Administered pension funds	1,462.0	1,466.9	1,222.2	1,040.3	936.4
	<u>\$12,718.8</u>	<u>\$12,739.0</u>	<u>\$10,724.0</u>	<u>\$9,270.7</u>	<u>\$8,434.3</u>
<i>Investment income earned</i>					
Basic plan	\$783.3	\$916.0	\$715.5	\$828.4	\$716.5
Supplementary benefits	11.3	9.7	14.7	10.6	9.7
Administered pension funds	106.0	122.6	95.8	108.4	92.9
	<u>\$900.6</u>	<u>\$1,048.3</u>	<u>\$826.0</u>	<u>\$947.4</u>	<u>\$819.1</u>
<i>Contributions received for</i>					
Basic plan	\$683.3	\$590.9	\$525.1	\$477.0	\$437.1
Basic plan unfunded liabilities	35.5	19.7	19.6	51.6	20.9
Supplementary benefits	1.6	1.5	4.8	3.6	4.0
	<u>\$720.4</u>	<u>\$612.1</u>	<u>\$549.5</u>	<u>\$532.2</u>	<u>\$462.0</u>
<i>Payments to members</i>					
Pensions paid	\$278.5	\$244.6	\$208.4	\$165.4	\$133.6
Contributions/interest refunded	53.7	51.2	31.3	36.3	30.6
Transfers to other plans	5.3	4.1	2.9	3.8	2.2
	<u>\$337.5</u>	<u>\$299.9</u>	<u>\$242.6</u>	<u>\$205.5</u>	<u>\$166.4</u>
<i>Administrative expenditures and recoveries</i>					
Pension programme					
Gross	\$12.6	\$10.6	\$8.4	\$5.6	\$4.2
Fee recoveries	0.8	0.7	0.7	0.7	0.6
Net	<u>\$11.8</u>	<u>\$ 9.9</u>	<u>\$7.7</u>	<u>\$4.9</u>	<u>\$3.6</u>
Investment programme	12.7	9.7	6.8	6.4	5.3
	<u>\$24.5</u>	<u>\$19.6</u>	<u>\$14.5</u>	<u>\$11.3</u>	<u>\$8.9</u>
<i>Total Fund annual rates of return</i>					
Dollar-weighted return on book value	7.6%	10.2%	9.1%	12.2%	12.4%
Time-weighted return on market value	-3.4%	16.1%	12.1%	5.8%	13.0%

*Market Value at December 31

Meeting New Challenges

During 1990 OMERS engaged the services of a global custodian bank to fulfil the OMERS Fund's complex needs. The custodian provides securities safe-keeping, trade settlement, and reporting services essential to the effective administration of the Fund. The diversity and extent of the Fund's investments and the stringent reporting requirements of various securities commissions and other government agencies requires a sophisticated custodian with Canadian and international facilities.

The exhaustive search for a suitable custodian conducted by the Administration Division included an evaluation of accounting and reporting functions, world wide sub-custodian networks, computer facilities and automated linkages with clients, internal control systems, and cash management capabilities. A rigorous on-site test and the monitoring of a "live" situation over an extended period allowed OMERS to test the candidates' systems and problem resolution processes thoroughly.

The Administration Division also assessed International Investment Manager candidates' accounting systems, internal controls, and ability to meet reporting requirements. Operating guidelines for external managers were developed to meet the increasingly complex administrative services required by regulatory authorities.

OMERS invested in computerized accounting system enhancements in 1990 to provide better information processing. New mortgage accounting software will provide more timely information to the mortgage underwriting staff, and the main investment accounting software is being upgraded to permit daily valuation of the Fund's investment portfolios. Both systems will be implemented in 1991.

The administration Division continued the redevelopment of the pension administration computer systems in 1990. This major project will help OMERS meet changing Provincial and Federal requirements, and will ensure better service to members, employers and pensioners.



Consolidated Investment Fund Assets
Market Value as at December 31 (000's)

	1990	1989
Debt Investments		
Cash and Short Term	\$ 678,149	\$ 655,565
Ontario Debentures	1,143,320	1,205,351
Marketable Bonds	1,122,312	1,148,065
Private Placement - Debt	269,842	274,469
Mortgages: • Residential - Insured	1,113,141	1,178,417
• Commercial - Uninsured	794,682	702,310
Total Debt Investments	<u>\$ 5,121,446</u>	<u>\$ 5,164,177</u>
Equity Investments		
Stocks		
Canadian: • Internally Managed	3,626,067	4,216,280
• Index Funds	955,173	677,893
• Externally Managed	529,781	209,908
Foreign: • Internally Managed	642,763	764,474
• Externally Managed	398,249	420,246
Total Stocks	<u>6,152,033</u>	<u>6,288,801</u>
Private Placements - Equity	266,873	296,202
Total Equity Investments	<u>\$ 6,418,906</u>	<u>\$ 6,585,003</u>
Real Estate	<u>\$ 921,158</u>	<u>\$ 573,604</u>
Total Fund at Market Value	<u>\$12,461,510</u>	<u>\$12,322,784</u>

Total Returns

(%) including unrealized gains or losses.	1990	1987-1990	1981-1990
Ontario Debenture	5.3	8.5	13.8
Marketable Bonds	11.0	9.8	13.7
Mortgages	10.6	10.8	15.3
Private Placement - Debt	13.3	13.4	14.7
Canadian Stocks	-13.8	6.0	9.3
Foreign Stocks	-4.3	5.4	12.9
Private Placements - Equity	-17.3	1.9	5.5
Real Estate	-4.9	8.8	10.4
Portfolio Average Return	<u>-3.4</u>	<u>7.4</u>	<u>12.3</u>
ScotiaMcLeod Universe Bond Index	7.5	8.5	13.3
TSE 300	-14.8	5.0	7.6
Morgan Stanley World Index	-14.9	4.6	14.8
Consumer Price Index	4.8	4.5	5.9

Staying the Course

1990 was a year of recession in Canada. Global political change and economic reversals also marked the year, as change in Eastern Europe and Germany, conflict in Kuwait, rising interest rates in Japan and tight credit in the U.S. had a negative impact on all major stock markets.

OMERS uses a disciplined approach to investment, emphasizing fundamental value and a long term investment horizon. Financial market upswings and downswings are unavoidable.

Fund portfolios surpassed performance benchmarks in both debt and equity markets. A significant equity investment programme during the second half of the year raised the equity component of the Fund and positioned it to gain from expected market growth in 1991. OMERS Realty Corporation, formed in 1989, added to a diversified portfolio of commercial real estate holdings at advantageous prices.

Although the investment portfolio experienced a loss of 3.4% during 1990, the OMERS Fund's 10 year rate of return of 12.3% was more than double the average annual increase of 5.9% in the Consumer Price Index, and exceeded the 12.0% earned by the median balanced fund in the SEI independent measurement service over the same period.

Fixed Income Investments

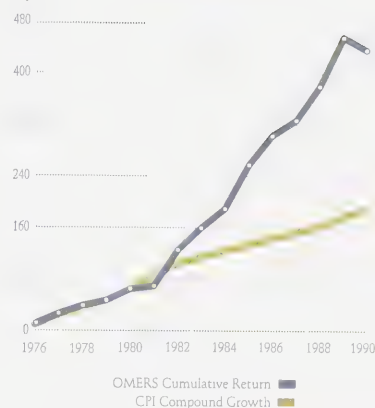
The marketable bond portfolio achieved an 11% return in 1990, an exceptionally good result when compared to the ScotiaMcLeod Universe Bond Index return of 7.5%. The portfolio was restructured to accommodate the addition of an in-house index fund and a shift to long bonds offering high rates of return.

The investment strategy of the mortgage portfolio was adjusted to place more commercial loans outside the Ontario market and to increase the proportion of Government insured loans. Mortgages, which represented 15.3% of the total Fund at year end, are particularly appropriate in a pension fund portfolio because they provide relatively high yields with low risk.

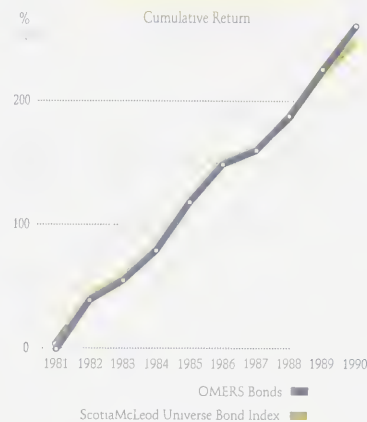
Equity Investments

Although 1990 was clearly not a good year for equity investors, OMERS maintained its investment discipline, minimizing potential losses and setting the stage for enhanced rates of return in the future. Substantial new sums, including \$90 million in trading profits, were committed to the equity markets in the third and fourth quarters of the year, after the sharp market decline. External managers were also required to invest all the funds under their administration, increasing the Fund's new investment late in the year.

OMERS Fund
Cumulative Return

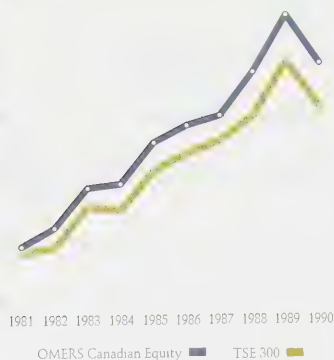


OMERS Marketable Bonds
Cumulative Return



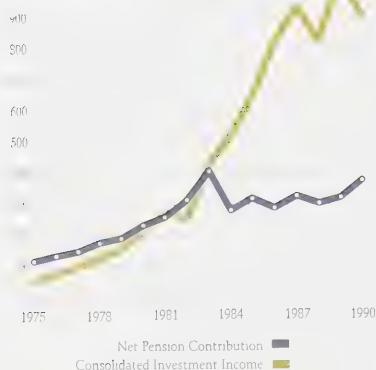
OMERS Canadian Equity

Cumulative Return



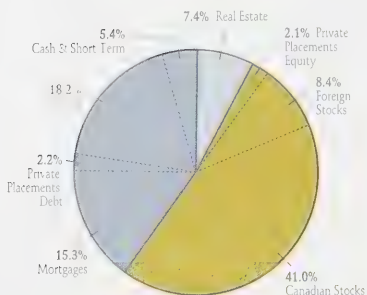
Investment Income and Plan Contributions

(\$ Millions)



OMERS Asset Mix

as of December 31, 1990



Equity investments outperformed their benchmarks in each market sector. The Canadian Core Fund earned a rate of return of -13.7% compared to the TSE 300 rate of return of -14.8%, and the U.S. portfolio saw a return of 2.1% compared to Standard and Poor's 500 Index rate of -2.9%. In a year of substantial market weakness total equities returned -12.2%.

OMERS thoroughly reviewed foreign equity investments in 1990 to ensure that the investments were well diversified and positioned to achieve optimum rates of return. The level of foreign investment permitted to Canadian pension plans is expected to increase from 10% to 20% over five years, offering opportunities to expand the portfolio.

A new global asset mix was developed, with 42% of foreign equities to be invested in the U.S., 30% in the Pacific, 23% in Europe and 5% in emerging markets. Of the total, 80% of foreign assets will be actively managed and 20% will be indexed. OMERS will manage the bulk of the U.S. investments internally, while external managers were engaged to manage our investments in the other global markets. To initiate this programme, OMERS redeemed its entire U.S. mutual fund portfolio early in 1990, when markets reached record highs. These funds, together with the proceeds from the sale of some U.S. equities and additional cash allocations, were reinvested in the fourth quarter when global equity markets were near their 52-week lows.

Corporate governance issues gained in importance in 1990. OMERS is involved in a shareholder dissent proceeding with Xerox Canada, and has been involved in discussions with corporations adopting "Poison Pill" plans. Fiduciary responsibility requires OMERS to support corporate actions that enhance long term shareholder values, and to oppose those that do not.

Real Estate

OMERS Realty Corporation, a wholly owned subsidiary of OMERS, was incorporated in 1989 to hold and manage the Fund's expanding real estate portfolio. The weak commercial real estate markets of 1990 offered attractive buying opportunities, and the company initiated its 5 year investment programme with new investments in Vancouver, Calgary and Montreal. Real Estate investments, currently 7.4% of the total Fund assets, are targeted to reach 15% by 1995.

The Fund adopted an asset mix policy and a long term investment strategy in 1989 that is designed to meet the plan's long term liabilities by increasing the proportion of equity and real estate investments in the portfolio. OMERS believes that this portfolio strategy is best suited to providing the higher rates of return needed to meet our inflation driven obligations over the long term.

Wyatt

*Actuarial Cost Certificate as at December 31, 1990
for the Ontario Municipal Employees Retirement Board*

The most recent actuarial valuation of the Ontario Municipal Employees Retirement System was conducted as at December 31, 1989 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The results of the actuarial valuation disclosed total Actuarial Liabilities of \$9,705.163 million in respect of benefits accrued for service prior to December 31, 1989. The Actuarial Assets at that date were \$10,696.047 million indicating an actuarial surplus of \$990.884 million.

The results of the actuarial valuation also indicated that the existing levels of employee and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1990 taking into account the amendments made to the Plan up to December 31, 1990. Further, we have calculated the Actuarial Assets at December 31, 1990.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1990 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted

THE WYATT COMPANY

M. A. Dewji

MUNIR DEWJI, F.S.A., F.C.I.A.

Fellow, Canadian Institute of Actuaries

March 26, 1991

**Peat Marwick Thorne**

Chartered Accountants

To the Ontario Municipal Employees Retirement Board

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1990 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Toronto, Canada

March 26, 1991

CONSOLIDATED STATEMENT OF NET ASSETS

(000's)

December 31	1990	1989
ASSETS		
Investments (note 1)	\$12,461,510	\$12,322,784
Long term receivables (note 2)	132,005	129,713
Fixed assets (note 3)	1,522	1,423
Contributions receivable	57,694	51,196
Accrued income	87,831	255,161
	<u>12,740,562</u>	<u>12,760,277</u>

LIABILITIES

Due to administered pension plans (note 4)	1,461,960	1,466,940
Provision for supplementary retirement benefits (note 5)	117,001	109,051
Due to brokers	21,770	21,285
	<u>1,600,731</u>	<u>1,597,276</u>
NET ASSETS (note 6)	<u>\$11,139,831</u>	<u>\$11,163,001</u>

SIGNED ON BEHALF OF THE BOARD



T.A. Arkeveld, Member



T.D. Allan, Member

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CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(000's)

Year ended December 31	1990	1989
INCREASES IN NET ASSETS		
Contributions (note 7)	\$ 720,424	\$ 612,070
Investment income (note 8)	783,308	915,952
Unrealized market appreciation of investments	0	569,823
	<u>1,503,732</u>	<u>2,097,845</u>
DECREASES IN NET ASSETS		
Unrealized market depreciation of investments	1,164,918	0
Benefits (note 9)	337,454	299,939
Administrative expenditures (note 10)	24,530	19,647
	<u>1,526,902</u>	<u>319,586</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(23,170)</u>	<u>1,778,259</u>
Net assets at beginning of year	11,163,001	9,384,742
NET ASSETS AT END OF YEAR	<u>\$11,139,831</u>	<u>\$11,163,001</u>



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Year ended December 31, 1990

General

The Ontario Municipal Employees Retirement System (OMERS) is a multi-employer pension plan which operates as Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the Ontario Municipal Employees Retirement System Act (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the Pension Benefits Act of Ontario, Registration #C006725.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service while in OMERS and the average annual contributory earnings during the member's highest 5 years of earnings. The pension is integrated with the Canada Pension Plan.

The Pension Benefits Act of Ontario (PBA) requires that participating employers must fund the benefits determined under the Plan. In accordance with the PBA the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above for members who meet the plan requirements, benefit coverage for early retirement, death benefits, disability waivers and benefits, and termination benefits are available. Complete information may be found from either the OMERS Act or by contacting OMERS.

Summary of Significant Accounting Policies

Consolidation

Certain of the Fund's term loan, real estate, mortgage and resource investments are held by wholly owned subsidiaries. The consolidated financial statements include the accounts of the Fund and all subsidiaries.

Investments

Investments are stated at market value and are recorded as of the trade date. Securities are valued at year end quoted market prices where available. Where quoted market values are not available, estimated values are calculated by discounting cash flows based on market yields, using cyclical real estate appraisals, or comparative securities.

Gains and losses on disposal of investments are credited or charged to investment income. Investment income is recorded on the accrual basis.

Fixed Assets

Computer equipment is recorded at cost and is depreciated on a straight-line basis over five years.

(000's)

1. Investments

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	1990		1989	
	Market Value	Cost	Market Value	Cost
Cash and short term deposits	\$ 678,149	\$ 678,149	\$ 655,565	\$ 655,565
Canadian bonds and debentures	2,265,632	2,418,111	2,353,416	2,440,508
Term loans	269,842	261,264	274,469	268,528
Mortgages	1,907,823	1,885,169	1,880,727	1,831,917
Canadian equities	5,111,021	5,170,960	5,104,081	4,203,600
Non-Canadian equities	1,041,012	931,718	988,619	782,046
Mutual funds	0	0	196,101	142,877
Real estate	864,625	833,972	497,042	400,661
Real estate debentures	56,533	56,533	76,562	62,241
Venture capital	82,968	85,408	93,289	97,047
Resource properties	75,220	77,592	79,507	74,626
Private placements equity	108,685	137,671	123,406	115,605
	<u>\$12,461,510</u>	<u>\$12,536,547</u>	<u>\$12,322,784</u>	<u>\$11,075,221</u>

Canadian bonds and debentures include Province of Ontario debentures having a cost of \$1,293,025 (1989 - \$1,293,025), bearing a weighted average interest rate of 9.07% and maturing at various dates beginning on December 31, 1993 through December 31, 2006.

At December 31, 1990, the Fund held individual investments whose market or cost value exceeded 1% of the market or cost value of investments in total:

	Number of Investments	1990 Aggregate	
		Market Value	Cost
Canadian equities	9	\$1,616,801	\$1,438,859
Real estate under development	1	197,395	190,492
		<u>\$1,814,196</u>	<u>\$1,629,351</u>

2. Long term Receivables

Under the terms of the OMERS Act certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long term receivables to be paid, with interest, over a period not to exceed fifteen years.



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(000's)

3. Fixed Assets

		1990		1989
	Cost	Accumulated depreciation	Net	Net
Computer equipment	\$3,473	\$2,167	\$1,306	\$1,309
Computer software	200	67	133	0
Other equipment	153	70	83	114
	<u>\$3,826</u>	<u>\$2,304</u>	<u>\$1,522</u>	<u>\$1,423</u>

4. Due to Administered Pension Plans

The administered pension plans which form part of the Fund, are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnical Institute, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

5. Provision for Supplementary Retirement Benefits

Certain participating employers have entered into agreements with the Board for provision of supplementary retirement benefits in addition to those provided by OMERS. Funding is provided by additional contributions. An actuarial valuation is performed every three years. Where actuarial liabilities exceed actuarial assets for individual groups a series of special payments has been established to eliminate the deficiency. The most recent actuarial valuation was performed at January 1, 1987. On an overall basis the actuarial assets exceeded the actuarial liabilities for the participating groups.

6. Net Assets

The actuarial valuation was conducted as of December 31, 1989 and has been extrapolated to December 31, 1990. The projected unit credit method prorated on services, and certain funding assumptions were used in the valuation and the extrapolation.

The actuarial value of net assets available for benefits has been determined using total assets at cost adjusted for the average difference between market value and cost of equity and real estate investments over the last five year period. The objective of this process is to smooth out the effects of market volatility by averaging market values for equities and real estate while reflecting long term trends.

(000's)

6. Net Assets (cont.)

The actuarial present value of accrued pension benefits includes benefits for active members, pensioners and deferred vested pensioners.

The results of the actuarial valuation on December 31, 1989 indicate that the existing levels of member and employer contributions are sufficient to meet the normal actuarial cost of benefits earned during 1990.

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	1990	1989
Market value of net assets at end of year	\$11,139,831	\$11,163,001
Add/(Deduct) market value changes not reflected in actuarial value of net assets	604,169	(467,001)
Actuarial value of net assets at end of year	<u>\$11,744,000</u>	<u>\$10,696,000</u>
Actuarial present value of accrued pension benefits at beginning of the year	\$ 9,705,000	\$ 8,695,000
Ad hoc increases to pension benefits	171,000	101,000
Change in actuarial assumptions	0	(94,000)
Interest accrued on benefits	651,000	584,000
Benefits accrued	611,000	541,000
Benefits paid	(272,000)	(238,000)
Experience losses	116,000	116,000
Actuarial present value of accrued pension benefits at end of the year	<u>\$10,982,000</u>	<u>\$ 9,705,000</u>
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	<u>\$ 762,000</u>	<u>\$ 991,000</u>

7. Contributions

	1990	1989
Members	\$ 336,430	\$ 292,454
Employers, current service	336,430	292,454
Employers, long term receivables and interest thereon (note 2)	35,468	19,654
Transfers from other pension plans	10,468	6,020
Supplementary retirement benefits (note 5)	1,628	1,488
	<u>\$ 720,424</u>	<u>\$ 612,070</u>



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(000's)

8. Investment Income

	1990	1989
Short term deposits	\$ 90,908	\$ 56,546
Canadian bonds and debentures	228,157	270,827
Term loans	31,187	32,336
Mortgages	206,091	220,211
Canadian equities	200,889	160,117
Non-Canadian equities	28,386	25,951
Mutual funds	630	19,523
Real estate	32,337	16,045
Real estate debentures	3,144	9,357
Venture capital	(493)	(1,965)
Resource properties	681	1,919
Private placements	3,861	6,801
	<u>825,778</u>	<u>817,668</u>
Realized capital gains	74,846	230,635
	<u>900,624</u>	<u>1,048,303</u>
Less income credited to:		
Administered pension plans	(105,963)	(122,641)
Provision for supplementary retirement benefits	(11,353)	(9,710)
	<u>\$783,308</u>	<u>\$ 915,952</u>

9. Benefits

	1990	1989
Members' pensions	\$278,462	\$244,639
Members' contributions plus interest refunded	53,730	51,172
Transfers to other pension plans	5,262	4,128
	<u>\$337,454</u>	<u>\$299,939</u>

10. Administrative Expenses

	1990	1989
Personnel services	\$12,830	\$ 9,497
Transportation & communication	1,082	846
Actuarial services	649	475
Audit services	268	271
Legal services	520	132
Other professional services	718	1,906
Other purchased services	6,123	4,525
Materials & supplies	3,159	2,731
	<u>\$25,349</u>	<u>\$20,383</u>
Less: Management fees from administered pension plans	819	736
	<u>\$24,530</u>	<u>\$19,647</u>

(en milliers de dollars)

8. Revenu de Placement

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9. Prestations

1989	244 639 \$	53 730	5 262	337 454 \$	299 939 \$
1990	278 462 \$	53 730	5 262	337 454 \$	299 939 \$
1989	1989	1989	1989	1989	1989

10. Frais d'administration

1989	12 830 \$	1 082	846	475	271	132	1 906	4 525	2 731	20 383 \$	819	24 530 \$	19 647 \$
1990	12 830 \$	1 082	846	475	271	132	1 906	4 525	2 731	20 383 \$	819	24 530 \$	19 647 \$
1989	1989	1989	1989	1989	1989	1989	1989	1989	1989	1989	1989	1989	1989

(en milliers de dollars)

6. Actif net (suite)

La valeur actualisée des prestations de retraite constituées comprend les prestations des membres actifs, des prestataires ainsi que des prestataires dont les droits acquis ont été reportés. Les résultats de l'évaluation actuarielle du 31 décembre 1989 ont démontré que l'échelle actuelle des cotisations des employés et des employés est suffisante pour couvrir les coûts actuariels normaux liés aux prestations gagnées en 1990.

	1990	1989
Valeur du marché de l'actif net à la fin de l'exercice	11 139 831 \$	11 163 001 \$
Plus (moins) les variations de la valeur du marché non reflétées dans la valeur actuarielle de l'actif net	604 169	(467 001)
Valeur actuarielle de l'actif net à la fin de l'exercice	11 744 000 \$	10 696 000 \$
Valeur actualisée des prestations de retraite		
constituées au début de l'exercice	9 705 000 \$	8 695 000 \$
Augmentations spéciales des prestations de retraite	171 000	101 000
Modification des hypothèses actuarielles	0	(94 000)
Intérêt couru sur les prestations	651 000	584 000
Prestations constituées	611 000	541 000
Prestations versées	(272 000)	(238 000)
Pertes actuarielles	116 000	116 000
Valeur actualisée des prestations de retraite constituées à la fin de l'exercice	10 982 000 \$	9 705 000 \$
Excédent de la valeur actuarielle de l'actif net sur la valeur actualisée des prestations de retraite constituées	762 000 \$	991 000 \$

	1990	1989
Members	336 430 \$	292 454 \$
Employeurs, services courants	336 430	292 454
Employeurs, débiteurs à long terme et intérêts y afférents (note 2)	35 468	19 654
Virements d'autres régimes de retraite	10 468	6 020
Prestations supplémentaires de retraite (note 5)	1 628	1 488
	720 424 \$	612 070 \$

7. Cotisations



(en milliers de dollars)

3. Immobilisations

Prix	coûtant	Amortissement cumulé	Montant net	Montant net
1990	1989			
3 826 \$	2 304 \$	1 522 \$	1 423 \$	
153	70	83	114	
200	67	133	0	
3 473 \$	2 167 \$	1 306 \$	1 309 \$	
Matériel informatique			net	
Logiciels				
Autre matériel				

4. Somme à payer aux caisses de retraite administrées

Les caisses de retraite administrées, faisant partie de la Caisse, sont gérées pour le compte du Conseil des gouverneurs des Collèges d'arts appliqués et de technologie de l'Ontario, de l'Institut Polytechnique Ryerson et du ministre de l'Énergie de la province de l'Ontario (The Ontario Hydro Guarantee Fund) et sont créditées de divers montants établis d'après leur quote-part des placements de la Caisse, à la valeur du marché. La Commission du régime de retraite des employés municipaux de l'Ontario est autorisée, en vertu de diverses conventions de gestion, à recouvrer les frais qu'elle engage pour l'administration des régimes mentionnés ci-dessus.

5. Provision pour les prestations supplémentaires de retraite

Certains employeurs participants ont conclu des conventions avec la Commission en vue de l'établissement d'une provision pour les prestations supplémentaires de retraite outre celles fournies par OMERS. La capitalisation est effectuée par le biais de cotisations supplémentaires. Une évaluation actuarielle est menée tous les trois ans. Lorsque la dette actuarielle est supérieure à l'actif actuariel dans le cas de groupes individuels, une série de versements spéciaux est prévue afin de combler l'insuffisance. L'évaluation actuarielle la plus récente a été effectuée au 1er janvier 1987. Sur une base globale, l'actif actuariel dépassait alors la dette actuarielle pour les groupes participants.

6. Actif net

L'évaluation actuarielle a été effectuée en date du 31 décembre 1989 et est extrapolée au 31 décembre 1990. La méthode de répartition des prestations au prorata des services ainsi que certaines hypothèses de capitalisation ont été utilisées aux fins de l'évaluation et de l'extrapolation. La valeur actuarielle de l'actif net disponible aux fins des prestations a été déterminée en utilisant le total de l'actif au prix coûtant, redressé pour tenir compte de l'écart moyen entre la valeur du marché et le coût des placements en titres ou en biens immobiliers au cours de la période des cinq derniers exercices. L'objectif de ce procédé est d'atténuer l'incidence des fluctuations du marché en établissant une moyenne des valeurs du marché des titres et biens immobiliers tout en reflétant les tendances à long terme.

Immobilisations

Le matériel informatique est inscrit au prix coûtant et il est amorti selon la méthode linéaire sur une période de cinq ans.

(en milliers de dollars)

1. Placements

	1990		1989	
	Valeur	Prix	Valeur	Prix
Encaisse et dépôts à court terme	678 149 \$	678 149 \$	655 565 \$	655 565 \$
Obligations et débiteurs canadiennes	2 265 632	2 418 111	2 353 416	2 440 508
Prêts à terme	269 842	261 264	274 469	268 528
Hypothèques	1 907 823	1 885 169	1 880 727	1 831 917
Titres canadiens	5 111 021	5 170 960	5 104 081	4 203 600
Titres non canadiens	1 041 012	931 718	988 619	782 046
Fonds mutuels	0	0	196 101	142 877
Biens immobiliers	864 625	833 972	497 042	400 661
Débiteurs sur biens immobiliers	56 533	56 533	76 562	62 241
Capital de risque	82 968	85 408	98 289	97 047
Propriétés de ressources naturelles	75 220	77 592	79 507	74 626
Placements privés	108 685	137 671	123 406	115 605
titres de participation	12 461 510 \$	12 536 547 \$	12 322 784 \$	11 075 221 \$

Les obligations et les débiteurs canadiennes comprennent des débiteurs de la province de l'Ontario d'un prix coûtant de 1 293 025 dollars (1 293 025 dollars en 1989), portant intérêt à un taux moyen pondéré de 9,07 % et venant à échéance à diverses dates à compter du 31 décembre 1993 jusqu'au 31 décembre 2006.

Au 31 décembre 1990, la Caisse détenait des placements distincts dont la valeur du marché ou le prix coûtant était supérieur à 1 % de la valeur du marché ou du prix coûtant du total des placements:

	Nombre de placements	Valeur du marché	Prix coûtant
Titres canadiens	9	1 616 801 \$	1 438 859 \$
Biens immobiliers en voie d'aménagement	1	197 395	190 492
		1 814 196 \$	1 629 351 \$

2. Débiteurs à long terme

En vertu de la Loi sur le régime de retraite des employés municipaux de l'Ontario, certains employeurs participants ont conclu des conventions avec la Commission en vue de l'établissement de provisions pour des prestations supplémentaires au titre de services passés. Chaque employeur est responsable individuellement de la capitalisation de ces prestations établies d'après des évaluations actuarielles distinctes. Les montants exigibles des employeurs aux termes de ces conventions sont comptabilisés à titre de débiteurs à long terme devant être payés, avec les intérêts, sur une période n'excédant pas quinze ans.

Exercice terminé le 31 décembre 1990

Généralités

Le régime de retraite des employés municipaux de l'Ontario (OMERS) est un régime de retraite interentrepris géré comme caisse de retraite des employés municipaux de l'Ontario (la Caisse), tel qu'il est prévu à l'article 5 de la Loi sur le régime de retraite des employés municipaux de l'Ontario (la Loi). Le régime verse des prestations de retraite aux employés municipaux de l'Ontario, des conseils locaux, des services publics et des conseils scolaires (personnel non enseignant) de l'Ontario.

La Caisse est un régime de retraite contributif à prestations déterminées financé par des cotisations versées à parts égales par les employés participants, ainsi que par les revenus de placement de la Caisse. Le régime est enregistré en vertu de la Loi sur les régimes de retraite de l'Ontario, sous le numéro C006725.

L'âge normal de la retraite est de 65 ans pour tous les membres du OMERS, à l'exception des policiers et pompiers qui peuvent prendre leur retraite dès l'âge de 60 ans. Le montant des prestations de retraite est habituellement obtenu en calculant le nombre d'années de services admissibles du membre au sein du OMERS ainsi que la moyenne annuelle des cotisations versées au cours des cinq années de salaire le plus élevé du membre. Les prestations sont intégrées au Régime de pension du Canada.

La Loi sur les régimes de retraite de l'Ontario exige que les prestations déterminées aux termes du régime soient capitalisées par les employés participants. Conformément à cette loi, l'établissement de la valeur de ces prestations est fondé sur une évaluation actuarielle périodique.

Outre les prestations habituelles décrites ci-dessus à l'intention des membres répondant aux exigences du régime, ce dernier offre une couverture de retraite anticipée, des prestations de décès, des exonérations et rentes d'invalidité ainsi que des indemnités de départ. Des renseignements supplémentaires pourront être obtenus en consultant la Loi sur le régime de retraite des employés municipaux de l'Ontario ou en communiquant avec le OMERS.

Sommaire des principales conventions comptables

Périmètre de consolidation

Certains des placements de la Caisse relatifs à des prêts à terme, à des biens immobiliers, à des hypothèques et à des ressources naturelles sont détenus par des filiales en propriété exclusive. Les états financiers consolidés comprennent les comptes de la Caisse et ceux de toutes ses filiales.

Placements

Les placements sont présentés à la valeur du marché et sont comptabilisés à la date de négociation. Les titres sont évalués aux cours du marché à la fin de l'exercice, lorsque ceux-ci peuvent être obtenus. Lorsque les cours du marché ne sont pas disponibles, les valeurs estimatives sont calculées en actualisant les mouvements de trésorerie établis d'après les rendements sur le marché, au moyen d'évaluations cycliques de biens immobiliers, ou de titres comparables.

Les gains et les pertes découlant de l'aliénation de placements sont imputés au revenu de placement. Le revenu tiré des placements est comptabilisé selon la méthode de la comptabilité d'exercice.

ÉTAT CONSOLIDÉ DE L'ACTIF NET

31 décembre
(en milliers de dollars)

ACTIF	1990	1989
Placements (note 1)	12 461 510 \$	12 822 784 \$
Débiteurs à long terme (note 2)	132 005	129 713
Immobilisations (note 3)	1 522	1 423
Cotisations à recevoir	57 694	51 196
Revenu couru	87 831	255 161
	12 740 562	12 760 277

PASSIF

Somme à payer aux caisses de retraite administrées (note 4)

Provision pour les prestations supplémentaires de retraite (note 5)	1 461 960	1 466 940
Somme à payer aux courtiers	117 001	109 051
	21 770	21 285
	1 600 731	1 597 276
ACTIF NET (note 6)	11 139 831 \$	11 163 001 \$

AU NOM DU CONSEIL,

T.A. Arkeveld, membre

T.D. Allan, membre

ÉTAT CONSOLIDÉ DE L'ÉVOLUTION DE L'ACTIF NET

(en milliers de dollars)

Exercice terminé le 31 décembre

	1990	1989
AUGMENTATION DE L'ACTIF NET	720 424 \$	612 070 \$
Cotisations (note 7)	783 308	915 952
Revenu de placement (note 8)	0	569 823
Plus-value non matérialisée des placements	1 503 732	2 097 845

DIMINUTION DE L'ACTIF NET

Moins-value non matérialisée des placements
Prestations (note 9)
Frais d'administration (note 10)

AUGMENTATION (DIMINUTION) DE L'ACTIF NET	1 526 902	319 586
	(23 170)	1 778 259
	11 163 001	9 384 742
ACTIF NET À LA FIN DE L'EXERCICE	11 139 831 \$	11 163 001 \$

Actif net au début de l'exercice

À la Commission du régime de retraite des employés municipaux de l'Ontario

Nous avons vérifié l'état consolidé de l'actif net de la Caisse de retraite des employés municipaux de l'Ontario au 31 décembre 1990 et l'état consolidé de l'évolution de l'actif net de l'exercice terminé à cette date. La responsabilité de ces états financiers incombe à la direction de la Caisse. Notre responsabilité consiste à exprimer une opinion sur ces états financiers en nous fondant sur notre vérification.

Notre vérification a été effectuée conformément aux normes de vérification généralement reconnues. Ces normes exigent que la vérification soit planifiée et exécutée de manière à fournir un degré raisonnable de certitude quant à l'absence d'inexactitudes importantes dans les états financiers. La vérification comprend le contrôle par sondages des informations probantes à l'appui des montants et des autres éléments d'information fournis dans les états financiers. Elle comprend également l'évaluation des principes comptables suivis et des estimations importantes faites par la direction, ainsi qu'une appréciation de la présentation d'ensemble des états financiers.

À notre avis, ces états financiers consolidés présentent fidèlement, à tous égards importants, la situation financière de la Caisse au 31 décembre 1990 ainsi que les résultats de son exploitation et l'évolution de sa situation financière pour l'exercice terminé à cette date selon les principes comptables généralement reconnus.

Peat Marwick Thorne

Comptables agréés
Toronto, Canada
Le 26 mars 1991

Wyatt

**Certificat actuariel de La commission du régime de retraite
des employés municipaux de l'Ontario au 31 décembre 1990**

La plus récente évaluation actuarielle relative au Régime de retraite des employés municipaux de l'Ontario a été effectuée au 31 décembre 1989 à partir de la méthode actuarielle de répartition des prestations avec projection de salaires. Notre évaluation est conforme aux recommandations sur l'évaluation actuarielle des régimes de retraite adoptées par l'Institut Canadien des Actuaires.

Les résultats de cette évaluation actuarielle indiquent un passif actuariel de 9 705,163 millions de dollars relativement aux prestations accumulées pour services accomplis avant le 31 décembre 1989. La valeur actuarielle de l'actif était de 10 696,047 millions de dollars, indiquant un excédent actuariel de 990,884 millions de dollars.

Les résultats de cette évaluation actuarielle indiquent aussi que les niveaux actuels de cotisations patronales et salariales sont suffisants pour couvrir la cotisation pour services futurs relativement à chaque année civile et ce, jusqu'à la prochaine évaluation actuarielle.

Nous avons étudié le développement le plus probable du passif actuariel au cours de l'année 1990 en tenant compte des modifications apportées au régime jusqu'au 31 décembre 1990. De plus, nous avons calculé la valeur actuarielle de l'actif au 31 décembre 1990.

D'après les faits mentionnés ci-dessus, il est de notre avis, conformément aux principes actuariels généralement acceptés, que l'actif de la caisse de retraite au 31 décembre 1990 est suffisant pour couvrir les obligations du régime relativement aux services accomplis par les participants jusqu'à cette date.

LA COMPAGNIE WYATT

M. Dewji

MUNIR DEWJI, F.S.A., F.I.C.A.

Fellow, Institut Canadien des Actuaires

Le 26 mars 1991

Les placements en titres de participation ont eu un rendement supérieur aux repères dans chaque secteur du marché. La Caisse canadienne de base a obtenu un taux de rendement de -13,7 %, contre -14,8 % pour les 300 de la Bourse de Toronto. Quant au Portefeuille des F.U., son rendement a été de 2,1 % par rapport au taux de -2,9 % de l'indice 500 de Standard and Poor. Dans une année marquée par la grande faiblesse du marché, le total des titres de participation a obtenu un rendement de -12,2 %.

OMERS a réexaminé de fond en comble ses placements en titres de participation étrangers en 1990 pour s'assurer que les placements étaient bien diversifiés et bien placés afin d'obtenir les meilleurs taux de rendement. On s'attend à ce que le niveau des placements étrangers permis aux régimes de retraite canadiens passe de 10 % à 20 % en cinq ans, ce qui offrira des possibilités d'expansion du portefeuille.

Selon la nouvelle composition de l'actif à l'échelle mondiale, 42 % des titres de participation étrangers seront investis aux F.U., 30 % dans le Pacifique, 23 % en Europe et 5 % sur les marchés qui se font jour. Sur ce total, 80 % de l'actif étranger sera géré activement et 20 % sera indexé. OMERS gèrera le gros des placements aux F.U. à l'intérieur du régime tandis que l'on engagera des gestionnaires externes pour gérer nos placements sur les autres marchés mondiaux. Pour mettre en place ce programme, OMERS a racheté la totalité de son portefeuille de fonds mutuels F.U. au début de 1990 lorsque les marchés ont atteint des sommets record. Ces fonds, réunis au produit de la vente de certains titres de participation des F.U., et à l'affectation de montants de trésorerie supplémentaires, ont été réinvestis au quatrième trimestre lorsque les marchés mondiaux de titres de participation s'approchaient de leur creux de 52 semaines.

Les questions de régie interne ont gagné de l'importance en 1990. OMERS est aux prises avec une instance en dissidence d'actionnaire avec Xerox Canada et a été impliqué dans des discussions avec des sociétés adoptant des plans renfermant des clauses onéreuses. La responsabilité fiduciaire exige qu'OMERS appuie les mesures de sociétés qui rehausseront les valeurs d'actionnaire à long terme et s'oppose aux mesures contraires.

Biens Immobiliers

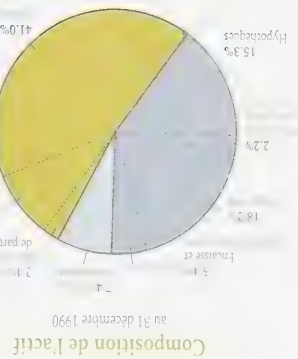
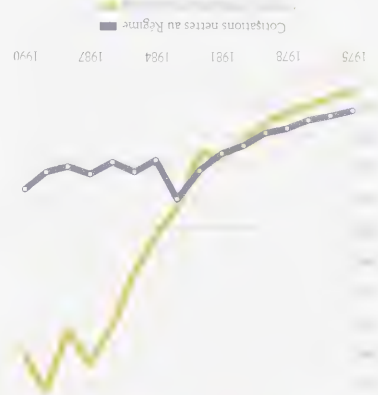
La Société immobilière OMERS, filiale en propriété exclusive d'OMERS a été constituée en 1989 pour détenir et gérer le portefeuille en expansion de valeurs immobilières de la Caisse. La faiblesse des marchés de biens immeubles commerciaux de 1990 offrait d'attrayantes occasions d'achat et la compagnie a entrepris son programme quinquennal de placements avec de nouveaux placements à Vancouver, Calgary et Montréal. Les placements immobiliers, qui constituent actuellement 7,4 % de l'actif total de la Caisse visent à en constituer 15 % d'ici 1995.

La Caisse a adopté en 1989 une politique de composition de l'actif et une stratégie de placement à long terme conçue pour couvrir les obligations à long terme du régime en augmentant dans le portefeuille la proportion des placements en titres de participation et en valeurs immobilières. OMERS croit que cette stratégie de portefeuille est celle qui convient le mieux pour procurer les taux de rendement élevés nécessaires pour nous acquitter à long terme de nos obligations qui sont sous la mouvance de l'inflation.

Actions canadiennes du OMERS



Revenu de placement et cotisations au régime (\$ millions)



Endiguer la marche

1990 a été une année de récession au Canada. Des changements politiques et des renversements économiques à l'échelle mondiale ont aussi marqué l'année pendant que les changements en Europe de l'Est et en Allemagne, le conflit au Koweït, la hausse des taux d'intérêt au Japon et le resserrement du crédit aux E.-U. avaient un effet défavorable sur tous les grands marchés boursiers.

OMERS recourt à une approche disciplinée en matière de placements, mettant l'accent sur la valeur fondamentale et un horizon de placement à long terme. Les hauts et les bas des marchés financiers sont inévitables.

Les portefeuilles de la Caisse ont dépassé les repères de rendement sur les marchés des titres de créance comme sur ceux des titres de participation. Un important programme de placement en titres de participation pendant le deuxième semestre de l'année a fait monter l'élément titres de participation de la Caisse et l'a mis en bonne position pour profiter de la croissance prévue du marché en 1991. La Société immobilière OMERS, créée en 1989, a enrichi un portefeuille diversifié de valeurs immobilières commerciales à des prix avantageux.

Bien que le portefeuille de placements ait enregistré une perte de 3,4 % en 1990, le taux de rendement de 12,3 % de la Caisse d'OMERS sur une période de 10 ans représente plus du double de la hausse annuelle moyenne de 5,9 % de l'indice des prix à la consommation et dépasse les 12,0 % gagnés par le Fonds équilibré médian selon le service de mesure indépendant SBI sur la même période.

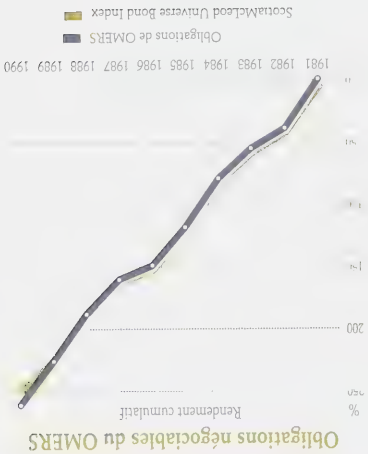
Titres à revenu fixe

Le portefeuille des obligations négociables a obtenu en 1990 un rendement de 11 %, résultat exceptionnellement bon si on le rapproche du rendement de 7,5 % du ScotiaMcLeod Universe Bond Index. Le portefeuille a été réorganisé pour accommoder l'adjonction d'un Fonds à indice interne et une transition vers des obligations à long terme offrant des taux de rendement élevés.

La stratégie de placement du portefeuille hypothécaire a été rajustée pour placer un plus grand nombre de prêts commerciaux hors du marché ontarien et pour augmenter la proportion de prêts assurés par le gouvernement. Les hypothèques, qui représentaient 15,3 % du total de la Caisse à la fin de l'année, conviennent particulièrement à un portefeuille de caisse de retraite parce qu'elles procurent des rendements relativement élevés en échange d'un faible risque.

Titres de participation

Bien que 1990 n'ait certes pas été une bonne année pour les investisseurs en titres de participation, OMERS a maintenu sa discipline en matière de placements, minimisant les pertes potentielles et préparant le terrain en vue de meilleurs taux de rendement à l'avenir. Des montants considérables d'argent frais, notamment 90 millions de dollars de profits découlant de négociations, ont été injectés dans les marchés de titres de participation aux troisième et quatrième trimestres de l'année après la baisse abrupte du marché. On a aussi fait appel à des gestionnaires externes pour investir la totalité des fonds confiés à leur administration, d'où l'augmentation substantielle des nouveaux placements de la Caisse vers la fin de l'année.



Actif consolidé des fonds de placement

Valeur marchande au 31 décembre (000)		
1990	1989	
Titres de créance		
Comptant - Placements à court terme	678 149 \$	655 565 \$
Débitures de l'Ontario	1 143 320	1 205 351
Obligations négociables	1 122 312	1 148 065
Placements privés - Dette	269 842	274 469
Prêts hypothécaires: • résidentiels - assurés	1 113 141	1 178 417
• commerciaux - non assurés	794 682	702 310
Total des titres de créance	5 121 446 \$	5 164 177 \$
Titres de participation		
Actions		
Canadiennes: • gérées à l'interne		
• indexées		
• gérées à l'externe		
Étrangères: • gérées à l'interne		
• gérées à l'externe		
Total des actions	6 152 033	6 288 801
Placements privés - Titres de participation	266 873	296 202
Total des placements en titres de participation	6 418 906 \$	6 585 003 \$
Biens immobiliers		
Total de la caisse à la valeur marchande	12 461 510 \$	12 322 784 \$
Total des rendements		
(%o) Y compris les gains ou les pertes non réalisés.		
1990	1987-1990	1981-1990
5.3	8.5	13.8
11.0	9.8	13.7
10.6	10.8	15.3
13.3	13.4	14.7
-13.8	6.0	9.3
-4.3	5.4	12.9
-17.3	1.9	5.5
-4.9	8.8	10.4
-3.4	7.4	12.3
7.5	8.5	13.3
-14.8	5.0	7.6
-14.9	4.6	14.8
4.8	4.5	5.9
IPC		
Morgan Stanley World Index		
TSE 300		
Scotiabank Universal Bond Index		
Rendement moyen du portefeuille		
Biens immobiliers		
Placements privés - Titres de participation		
Actions étrangères		
Actions Canadiennes		
Placements privés - Dette		
Prêts hypothécaires		
Obligations négociables		
Débitures de l'Ontario		

Relever de nouveaux défis

En 1990, OMERS a retenu les services d'une banque dépositaire d'envergure mondiale chargée de satisfaire les besoins complexes de la Caisse de retraite d'OMERS. Le dépositaire se charge de la garde des titres, des règlements commerciaux et des services de présentation de l'information financière essentiels à l'administration efficace de la Caisse. La diversité et l'envergure des placements de la Caisse et les exigences rigoureuses de diverses commissions des valeurs mobilières et autres organismes gouvernementaux en matière de présentation de l'information financière exigent les services d'un dépositaire spécialisé ayant des installations au Canada et dans le monde entier.

La recherche exhaustive d'un dépositaire approprié menée par la Division de l'administration a comporté une évaluation des fonctions de comptabilité et de présentation de l'information financière, des réseaux de sous-dépôtaires à l'échelle mondiale, des installations informatiques, et des liaisons de contrôle interne et des capacités de gestion de la trésorerie. Un essai rigoureux sur place et la surveillance d'une situation « en direct » sur une période prolongée ont permis à OMERS d'évaluer à fond les systèmes et processus de résolution de problèmes de la banque candidate.

La Division de l'administration a également évalué les systèmes comptables, les contrôles internes et l'aptitude à satisfaire les exigences de présentation de l'information financière des candidats au poste de gestionnaire de placement international. Des directives d'exploitation ont également été élaborées à l'intention de gestionnaires externes pour qu'ils procurent les services administratifs de plus en plus spécialisés qu'exigent les organismes de réglementation.

OMERS a investi en 1990 dans l'amélioration du système comptable informatisé, ce qui permettra un meilleur traitement de l'information. Un nouveau logiciel de comptabilité des hypothèques fournira une information plus à jour au personnel d'évaluation et de souscription des hypothèques. Enfin, le principal logiciel de comptabilité des placements a été modernisé de façon à permettre l'évaluation au jour le jour des portefeuilles de placement de la Caisse. Les deux systèmes seront mis en application en 1991.

La Division de l'administration a poursuivi en 1990 la réorganisation des systèmes informatiques d'administration des retraites. Cet important projet aidera OMERS à relever le défi des nouvelles exigences provinciales et fédérales et assurera un meilleur service aux participants, aux employés et aux retraités.

\$Millions	1990	1989	1988	1987	1986
<i>Placements au marché</i>					
Débitures provinciales	1 143,3 \$	1 205,4 \$	1 162,4 \$	1 160,8 \$	1 232,3 \$
Titres négociables	11 318,2	11 117,4	9 245,4	7 819,4	6 972,8
<i>Actif au marché disponible pour</i>	12 461,5 \$	12 322,8 \$	10 407,8 \$	8 980,2 \$	8 205,1 \$
Prévisions de base	11 139,8 \$	11 163,0 \$	9 384,7 \$	8 131,9 \$	7 411,1 \$
Ententes pour prestations					
supplémentaires	117,0	109,1	117,1	98,5	86,8
Régimes de retraite administrés	1 462,0	1 466,9	1 222,2	1 040,3	936,4
<i>Revenu de placements réalisés</i>	12 718,8 \$	12 739,0 \$	10 724,0 \$	9 270,7 \$	8 434,3 \$
Régime de base	783,3 \$	916,0 \$	715,5 \$	828,4 \$	716,5 \$
Ententes pour prestations					
supplémentaires	11,3	9,7	14,7	10,6	9,7
Régimes de retraite administrés	106,0	122,6	95,8	108,4	92,9
<i>Cotisations reçues</i>	683,3 \$	590,9 \$	525,1 \$	477,0 \$	437,1 \$
Dettes actuariales non provisionnées	35,5	19,7	19,6	51,6	20,9
du régime de base					
Ententes pour prestations					
supplémentaires	1,6	1,5	4,8	3,6	4,0
<i>Versements aux membres</i>	720,4 \$	612,1 \$	549,5 \$	532,2 \$	462,0 \$
Retraites versées	278,5 \$	244,6 \$	208,4 \$	165,4 \$	133,6 \$
Remboursement de cotisations					
et d'intérêts	53,7	51,2	31,3	36,3	30,6
Transferts à d'autres régimes	5,3	4,1	2,9	3,8	2,2
<i>Dépenses administratives et recouvrement</i>	337,5 \$	299,9 \$	242,6 \$	205,5 \$	166,4 \$
Régime de retraite					
Montant brut	12,6 \$	10,6 \$	8,4 \$	5,6 \$	4,2 \$
Recouvrement d'honoraires	0,8	0,7	0,7	0,7	0,6
Montant net	11,8 \$	9,9 \$	7,7 \$	4,9 \$	3,6 \$
Régime de placement	12,7	9,7	6,8	6,4	5,3
	24,5 \$	19,6 \$	14,5 \$	11,3 \$	8,9 \$
<i>Taux de rendement annuels du total de la caisse</i>					
Rendement monétaire sur	7,6%	10,2%	9,1%	12,2%	12,4%
valeur comptable					
Rendement interne sur	-3,4%	16,1%	12,1%	5,8%	13,0%
valeur marchande					
<i>* Valeur marchande au 31 décembre</i>					

C'est la sixième année de suite que l'augmentation spéciale de la rente d'OMERS égale celle de l'inflation de l'année. L'augmentation a été financée grâce à l'excédent actuariel. Au cours des trois dernières années, le Conseil d'OMERS a proposé au gouvernement de l'Ontario un certain nombre de modifications au régime de retraite, notamment :

- protection garantie contre l'inflation égale à 75 % de l'augmentation de l'IPC (augmentation maximale de l'IPC de 8 %, avec possibilité de report aux années suivantes), financée par une augmentation de 0,5 % du taux de cotisation des participants et des employeurs;
- rente intégrale après 30 années décomptées (dans les 10 années précédant l'âge de la retraite normale);
- rente payable au conjoint survivant d'un mariage célébré après le départ à la retraite;
- achat individuel d'années de services passés ouvrant droit à pension, dans la fonction publique ou les forces armées en temps de guerre.

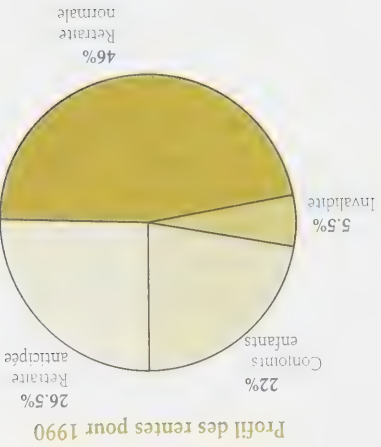
L'honorable David Cooke, ministre des Affaires municipales et du Logement examine présentement ces modifications au régime OMERS. Bien que le changement de gouvernement survenu en septembre 1990 en Ontario ait inévitablement retardé l'adoption des propositions, le Conseil espère qu'elles seront adoptées en 1991. L'évaluation actuarielle du 31 décembre 1989 d'OMERS, établie par la Compagnie Wyatt, indique que les taux de cotisation actuels et la situation financière de la Caisse de retraite suffisent à assurer le maintien des prestations actuelles du régime OMERS. Le régime continue d'avoir un excédent actuariel raisonnable de 991 millions de dollars. Depuis 1978, les augmentations de rentes et les améliorations de prestations sont provisionnées à même l'excédent du régime.

Le régime poursuit sa croissance. Le nombre des employeurs participants a augmenté de 1 %, celui des participants actifs de 5,6 %, celui des rentes différées de 12,8 % et le nombre des retraités a augmenté de 7,2 %. Les retraités constituent proportionnellement le secteur du régime qui accuse la croissance la plus rapide et l'on s'attend à ce que leur nombre continue de s'accroître plus vite que celui des participants actifs. Des données statistiques plus détaillées figurent dans l'Aperçu des données du régime sur cinq ans à la page 4.

Nous faisons tout pour que le service que nous offrons aux participants, aux retraités et aux employeurs qui constituent le régime soit de la meilleure qualité à mesure que le régime OMERS poursuit sa croissance.

Administration d'autres régimes

Moyennant des honoraires, OMERS administre le Régime de retraite de l'Institut polytechnique Ryerson qui enregistre un actif net d'une valeur marchande de 124,2 millions de dollars, et celui des Collèges d'arts appliqués et de Technologie de l'Ontario (CAAT) dont la valeur marchande de l'actif net atteint 1,3 milliard de dollars. Le régime de Ryerson compte 1 398 participants et 208 retraités qui ont reçu des prestations d'une valeur de 1,5 million de dollars en 1990. Le régime des CAAT compte 17 938 participants et 2 759 retraités qui ont reçu 18,7 millions de dollars de prestations de retraite en 1990.



Résultats de l'Évaluation Actuarielle
au 31 Décembre

	1989	1988
Actif actuariel	10 696,0 \$	9 314,6 \$
Passif actuariel	9 705,0	8 694,8
Excédent	991,0	619,8

(voir états financiers consolidés note 6)



1990	1989	1988	1987	1986
<i>Adhérents</i>				
<i>à l'emploi de</i>				
Municipalités	541	532	526	507
Conseils scolaires	134	134	133	132
Autres conseils locaux	445	442	439	430
1 120	1 108	1 098	1 077	1 069
<i>Adhérents résidents</i>				
<i>Municipalités</i>				
89 645	85 228	81 146	74 824	71 703
49 570	46 768	43 093	38 373	36 158
41 323	39 002	36 614	33 628	32 259
180 538	170 998	160 853	146 825	140 120
<i>par sexe</i>				
Femmes	81 940	76 135	69 678	60 579
Hommes	98 598	94 863	91 175	86 246
180 538	170 998	160 853	146 825	140 120
<i>par âge normal de retraite</i>				
65 ans	157 831	151 650	142 348	122 922
60 ans	22 707	19 348	18 505	17 533
180 538	170 998	160 853	146 825	140 120
<i>Adhérents terminés qui ont choisi une pension différée</i>				
7 107	6 300	5 052	3 908	3 688
<i>Nombre de retraités par type de retraite</i>				
Retraite normale	20 577	19 739	18 955	18 197
Retraite anticipée	11 760	10 383	8 996	7 823
Rente d'invalidité	2 447	2 257	2 128	2 025
Conjoints et enfants	9 886	9 308	8 701	8 101
44 670	41 687	38 780	36 146	33 340
<i>Nombre total des adhérents comprenant les adhérents cotisants, adhérents inactifs et retraités</i>				
232 371	219 156	204 685	186 879	177 148
<i>Nombre d'adhérents inscrits chaque année</i>				
22 673	22 306	23 208	18 856	15 565
<i>Nombre d'adhérents terminés chaque année</i>				
13 133	12 161	9 180	12 151	10 541
Augmentation nette du nombre d'adhérents	9 540	10 145	14 028	5 022

Accent sur le service

En 1990, la Division des retraites a mis l'accent sur le service, réalisant d'importantes améliorations dans les domaines des communications, du traitement des réclamations en matière de retraite et de la déclaration annuelle des cotisations.

En juin, le gouvernement fédéral a adopté des modifications à la Loi de l'impôt sur le revenu qui ont pour OMERs, ses membres et les employeurs, des conséquences énormes. Les nouvelles règles complexes de déclaration touchent les administrateurs du régime de retraite ainsi que les employeurs. En outre, le calcul des droits à cotisation au RER des participants au régime est modifié à compter de 1991. Pour se conformer à la nouvelle loi fiscale, il faudra apporter des révisions au régime d'OMERs à compter de 1991, notamment l'instauration de plafonds de rente et des changements en matière d'invalidité et d'admissibilité à la rente des enfants.

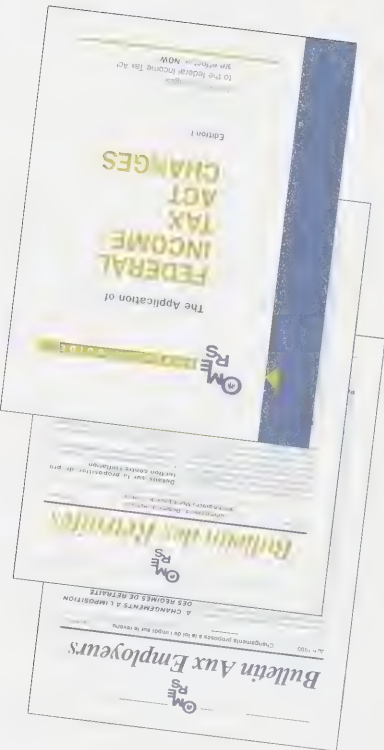
Le personnel d'OMERs a travaillé fort pour comprendre les modifications et faire en sorte que l'on puisse appliquer la loi. Le Département des Communications a entrepris une vaste série de séminaires dans tout l'Ontario pour expliquer les modifications fiscales aux employeurs d'OMERs. Le Guide des modifications de la Loi fédérale de l'impôt sur le revenu qui fut publié en septembre a aidé les administrateurs à comprendre et appliquer les nouvelles règles.

Le Département des Communications a lancé aussi un bulletin aux retraités qui est fort bien accueilli. D'autres documents ont été refondus et améliorés. Les lettres de renseignements administratifs aux employeurs ont été réunies dans un bulletin aux employeurs publié à intervalles réguliers et le guide de procédures pour le rapprochement des cotisations a été révisé.

Un groupe de service à la clientèle a été constitué sous forme de service de renseignements centralisé chargé de répondre aux demandes des participants et des employeurs. Le groupe a son propre numéro de téléphone, le (416) 569-2444, doté de nouvelles caractéristiques visant à améliorer le service.

La Division des retraites a élargi ses services en français. Un plus grand nombre de publications d'OMERs sont offertes en traduction et deux agents d'information bilingues ont été engagés.

Les rentes payées par OMERs, dont le service a commencé le 1er octobre 1989 ou juste avant, ont bénéficié d'une augmentation de 4,2 % le 1er janvier 1991. L'augmentation spéciale est égale au taux d'inflation pendant la période de septembre 1989 à septembre 1990. Les rentes dont le service a commencé après le 1er octobre 1989 mais avant le 1er octobre 1990 ont été augmentées au prorata. Une augmentation supplémentaire a été accordée à un grand nombre de rentes pour permettre un rattrapage d'au moins 75 % du taux d'inflation depuis le début du service de la rente. Les rentes dont le service a commencé le 1er décembre 1989 ou juste avant, ont aussi reçu un paiement forfaitaire égal à 6 mois d'une augmentation de 4,2 % en raison de l'inflation pour compenser le retard de 6 mois causé par le changement de la date habituelle des augmentations de rente qui est passée de juillet à janvier.

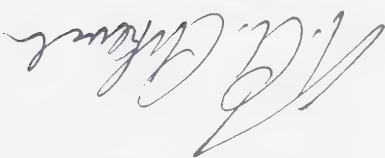


à réviser les systèmes d'administration du régime et à communiquer la nouvelle approche aux participants et aux employeurs.

L'année 1990 a été une année de changements politiques et de renversements économiques à l'échelle mondiale qui ont entraîné un déclin des marchés de placements dans le monde entier. Tout au long de l'année, les gestionnaires de portefeuille d'OMERS ont maintenu une discipline en matière de placements dans la poursuite des objectifs à long terme fixés en 1989. Le réinvestissement des fonds et la distribution des nouveaux capitaux dans les secteurs appropriés du marché ont rapproché la Caisse des cibles de composition de l'actif. Un important programme de placements en actions réalisé un peu avant la fin de l'année, alors que les marchés mondiaux étaient près de toucher leur point le plus bas, a placé la Caisse en bonne position pour profiter de la croissance prévue du marché en 1991. La Caisse d'OMERS reste solide et engagée à effectuer des placements de qualité dans un portefeuille diversifié qui assurera une croissance à long terme permettant au régime de s'acquitter de ses obligations qui sont sous la mouvance de l'inflation.

Pour OMERS, 1990 a été une année où les défis ont été relevés avec une confiance et une énergie renouvelées. Nous maintiendrons en 1991 notre engagement de procurer un service de premier ordre, travaillant ensemble à offrir un régime de retraite solide aux participants, aux employeurs et aux retraités d'OMERS.

Le président du Conseil,



T. Andreas Arkeveld

Travaillant ensemble pour votre retraite

Le Conseil d'OMERS a relevé les défis de 1990 avec une vigueur renouvelée et un engagement renouvelé au principe de service. En janvier 1990, nous avons souhaité la bienvenue à quatre nouveaux membres du Conseil. M. Ron S. Clark de la région d'Ottawa-Carleton, Mme Anne Dubas de la ville de Toronto, M. Gerry Lawson de la région d'Hamilton-Wentworth et Mme Shirley Feebles des Services sociaux du district d'Algoma ont apporté à OMERS, durant l'année, une expérience municipale variée et de nouveaux aperçus.

En 1990, le Conseil et son personnel ont adopté pour « raison d'être » d'OMERS la devise *Travaillant ensemble pour votre retraite*. Nous croyons que ces mots expriment vraiment les relations complexes inhérentes aux activités d'OMERS. Nous travaillons les uns avec les autres, avec la province et avec les employeurs municipaux participants. Nous travaillons avec les participants au régime, les retraités et leurs représentants. Nous travaillons avec des conseillers, courtiers, banquiers, vérificateurs, dépositaires et gestionnaires de portefeuille. Tous ensemble, nous travaillons pour le bien des participants, retraités et employeurs d'OMERS.

Le Conseil a également adopté des déclarations touchant deux valeurs fondamentales : *Nous offrons à tous nos clients un service de premier ordre et Nous nous traitons les uns les autres avec respect, justice, confiance et dignité*. Le service est pour OMERS d'une importance vitale, et nous nous efforçons de faire en sorte que le service que nous offrons soit de la plus haute qualité. Nous croyons que nous devons nous traiter les uns les autres et traiter les personnes avec lesquelles nous avons affaire avec respect, justice, confiance et dignité afin d'atteindre la norme supérieure de service que nous nous sommes fixée.

Étant donné le changement de gouvernement survenu en septembre en Ontario, l'adoption des propositions du Conseil visant à modifier le régime OMERS a été retardée. Les propositions sont maintenant soumises à l'étude de l'honorable David Cooke, ministre des Affaires municipales et du Logement et le Conseil espère qu'elles seront approuvées en 1991. Les modifications proposées concernent notamment l'indexation contractuelle et l'augmentation du taux de cotisation en résultat, la retraite anticipée après 30 années de service (dans les 10 années avant la retraite normale), une rente de conjoint en cas de mariage après la retraite et les rachats individuels au titre des services passés.

Le Conseil d'OMERS a demandé une augmentation spéciale de rente pour janvier 1991, et le Ministre est intervenu rapidement pour obtenir l'approbation du gouvernement. L'augmentation de la rente de 4,2 % fut égale au taux d'inflation pendant la période faisant l'objet de la mesure. Les retraités ont également obtenu une augmentation à titre de protection contre l'inflation pour assurer que leurs augmentations soient au moins égales à 75 % du taux d'inflation depuis le début du service de leur rente.

Des modifications apportées à la Loi fédérale de l'impôt sur le revenu, adoptées en juin 1990, ont créé une méthode entièrement nouvelle d'évaluer les droits individuels à une rente pour les participants au régime et de les déclarer à Revenu Canada. Ces modifications auront un effet profond sur les régimes de retraite et d'épargne-retraite au Canada. Le personnel d'OMERS a mis toute son énergie à comprendre les modifications,

Régime de retraite des employés municipaux de l'Ontario



Le gouvernement de l'Ontario a constitué le Régime de retraite des employés municipaux de l'Ontario (OMERS) en 1962 à titre de régime interentreprises pour les employés des pouvoirs publics locaux de l'Ontario. Quelques 1 120 municipalités, conseils locaux et conseils scolaires participent à ce régime. OMERS gère également les régimes de retraite de l'Institut Polytechnique Ryerson et des Collèges d'arts appliqués et de technologie.

Cété par un Conseil nommé par le gouvernement de l'Ontario, OMERS fonctionne sous la direction et à l'intention des employés municipaux. Huit membres du Conseil sont des employés des employés participants, deux membres sont des représentants élus ou nommés des municipalités ou des conseils locaux, et un membre est un représentant du gouvernement provincial.

OMERS est un régime de retraite contributif à prestations déterminées financé par les cotisations partitaires des employés participants et de leurs employés, auxquelles s'ajoutent les rendements des placements de la Caisse de retraite d'OMERS. OMERS vise à procurer aux participants du régime des prestations de retraite appropriées et sûres, tout en gardant les taux de cotisation des participants et des employés raisonnables et stables.

1	Rapport du président du Conseil
3	Division des retraites
4	Aperçu des données du régime sur cinq ans
6	Aperçu financier des cinq dernières années
7	Division de l'administration
8	Division des placements
11	Certificat actuariel
12	Rapport des vérificateurs
13	États financiers consolidés
14	Notes afférentes aux états financiers consolidés



Présidents

PRÉSIDENT
M. T. A. Arkeveld

Surintendant des activités et Trésorier,
Conseil scolaire du comté de Leeds et Grenville

VICE-PRÉSIDENT

M. T. D. Allan

Agent de police,

Police régionale de Durham

Mme N. Bundecki

Directrice, Direction des

finances municipales,

Ministère des Affaires

municipales

PRÉSIDENT SORTANT

M. P. R. Burke

Pompier, Ville de Windsor

M. R. S. Clark

Administrateur en chef,

Municipalité régionale

d'Ottawa-Carleton

Mme A. Dubas

Infirmière-hygiéniste,

Ville de Toronto

Mme D. F. Graber

Responsable administrative,

Communauté urbaine de

Toronto, Service de la voirie

M. G. Lawson

Commissaire des finances

et Trésorier,

Municipalité régionale de

Hamilton-Wentworth

Mme S. Peches

Travailleuse au soutien

parental, Services sociaux du

district d'Algonia

Comité des

Présidents

M. B. Sinclair

Maire, Ville d'Étobicoke

M. J. V. Sherlock

Administrateur,

Conseil scolaire catholique

de Halton

VICE-PRÉSIDENT

M. J. V. Sherlock

M. T. A. Arkeveld

Mme N. Bundecki

M. P. R. Burke

M. A. Fell

RBC Dominion

Securities Ltd.

M. D. Purdy

Crown Life Insurance Co.

M. B. Sinclair

Comité de gestion

PRÉSIDENT

M. G. Lawson

VICE-PRÉSIDENT

Mme D. F. Graber

M. P. R. Burke

M. R. S. Clark

Mme A. Dubas

Mme S. Peches

Cadres supérieurs

M. A. W. Reeve

Directeur exécutif

M. A. L. E. Beswick

Directeur,

Division des Retraites

Mme M. J. Bevan

Directrice,

Ressources Humaines

M. R. W. Gladstone

Directeur, Division de

l'Administration

M. R. L. Silken

Directeur, Division des

Placements

Conseillers du Conseil

La Compagnie Wyatt

ACTUAIRES

Peat Marwick Thorne

VÉRIFICATEURS

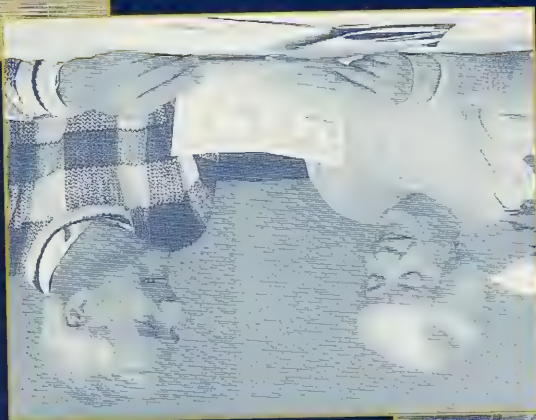
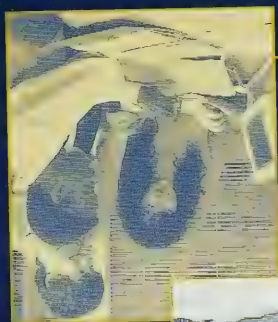
Osler, Hoskin & Harcourt

CONSEILLERS JURIDIQUES

Dr C. West

CONSEILLER MÉDICAL

**Travaillant ensemble
pour votre retraite**



**Rapport annuel
1990**



LA COMMISSION DU RÉGIME DE RETRAITE DES EMPLOYÉS
MUNICIPAUX DE L'ONTARIO

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Annual Report

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*Building
a more secure
future*

Ontario Municipal Employees Retirement System

The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 by the Ontario Government as a multi-employer pension plan for employees of local governments in Ontario. Some 1,114 municipalities, local boards and school boards participate in the OMERS plan. OMERS also manages the pension plans of Ryerson Polytechnical Institute and the Colleges of Applied Arts and Technology.

Managed by a Board appointed by the Ontario Government, OMERS is operated by and for municipal employees. Nine members of the



Board are employees of participating employers, two members are elected or appointed officials of municipalities or local boards, one member is a pensioner, and one member is a Provincial official.

OMERS is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund. OMERS is committed to providing appropriate and secure pension benefits for plan members while keeping member and employer contribution rates reasonable and stable.

WORKING TOGETHER
FOR YOUR RETIREMENT

Report from the Chair

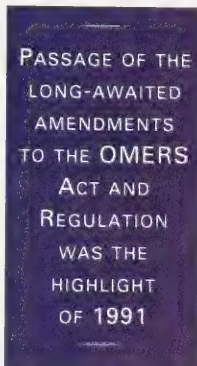
The announcement of the passage of the long-awaited amendments to the OMERS Act and Regulation by the Honourable Dave Cooke, Minister of Municipal Affairs, in December was the highlight of 1991. The Board is very pleased that these excellent improvements and additions to the OMERS plan are now in force.

Changes to the plan include the introduction of guaranteed pension indexing, individual prior service buy-backs, a 30 year early retirement provision, and the extension of spousal benefits to spouses of post-retirement marriages. Other amendments bring OMERS into compliance with the Ontario Pension Benefits Act and the Income Tax Act.

The cost of these improvements to the plan, projected by our actuary as approximately \$3.4 billion, will be paid from the plan surplus, enhanced long term investment returns, and the first contribution rate increase for members and employers since 1978.

The first pension increase under the new indexing provision was effective January 1, 1992 and was equal to 100% of the inflation rate from September 1990 to September 1991.

The changes were the most extensive to the OMERS Act and Regulation since 1978. As a result of the magnitude of the expense, no further benefit improvements other than inflation protection increases are anticipated until



such time as the plan surplus recovers to an appropriate level.

Service remains a priority for the OMERS plan. Redevelopment of the OMERS pension computer system, which processes and stores pensioner information, is in progress. The renewed system will improve and speed

up our service to pensioners.

In 1991 we transferred our marketable investment portfolio assets to the master custodian bank we chose in 1990. The custodian bank serves the Investment Division's increasingly complex needs. We improved our investment reporting and cost efficiency under the new arrangement.

We also initiated a new budget process in 1991. Programme budgeting will improve our ability to measure and control growth, and to compare our efficiency with similar organizations.

THE OMERS FUND

Improved global equity markets and falling domestic interest rates combined to provide excellent returns for the OMERS Fund in 1991. The total return for the year was 14.1%, and the total investment assets at market value had reached \$14.8 billion at December 31, 1991.

Fixed income investments saw a return of 18.7% in 1991, Canadian equity portfolios returned 12.3%, and foreign equities returned 19.6%. Reflecting weak markets, real estate

returned 0.1%. OMERS Realty Corporation took advantage of market conditions by continuing to invest in properties at attractive prices.

Most international, as well as Canadian, financial markets continue to offer good value. By maintaining investment discipline and emphasizing fundamental value, diversification, and a long term investment horizon, OMERS expects to see good returns continue in 1992 and beyond.

THE BOARD

During the year we welcomed Gary Mugford, a firefighter with the City of Toronto to the Board. We also said goodbye to long-standing member and past Chairman Patrick Burke, and to Ron Clark. We look forward to wel-

coming three new members in 1992, two of whom will fill new positions when the OMERS Board expands to thirteen members. One of those two will be an OMERS pensioner, and the other will be an officer of a participating employer.

The Board is pleased with the success it has had in meeting the challenges of the last two years, and looks forward to the implementation of the plan amendments in 1992, the 30th anniversary of OMERS.



T.D. Allan
Chair



*Building
a more secure
future*

Five Year Review of Plan Data

	1991	1990	1989	1988	1987
<i>Employers</i>					
Municipalities	536	541	532	526	512
School boards	131	134	134	133	133
Other local boards	447	445	442	439	432
	1,114	1,120	1,108	1,098	1,077
<i>Contributing Members by employer</i>					
Municipalities	92,870	89,645	85,228	81,146	74,824
School boards	52,107	49,570	46,768	43,093	38,373
Other local boards	42,361	41,323	39,002	36,614	33,628
Inactive groups	129				
	187,467	180,538	170,998	160,853	146,825
<i>by sex</i>					
Female	86,903	81,940	76,135	69,678	60,579
Male	100,564	98,598	94,863	91,175	86,246
	187,467	180,538	170,998	160,853	146,825
<i>by normal retirement age</i>					
Age 65	164,306	157,831	151,650	142,348	129,292
Age 60	23,161	22,707	19,348	18,505	17,533
	187,467	180,538	170,998	160,853	146,825
<i>Terminated members who have elected a deferred pension</i>					
	7,444	7,107	6,300	5,052	3,908
<i>Number of pensioners by type of pension</i>					
Normal retirement	21,297	20,577	19,739	18,955	18,197
Early retirement	12,994	11,760	10,383	8,996	7,823
Disability pension	2,546	2,447	2,257	2,128	2,025
Spouses and children	10,494	9,886	9,308	8,701	8,101
	47,331	44,670	41,687	38,780	36,146
<i>Total membership comprising</i>					
Active members, inactive members and pensioners	242,242	232,315	218,985	204,685	186,879
<i>Number of members enrolled each year</i>					
	16,532	22,673	22,306	23,208	18,856
<i>Number of members terminated each year</i>					
	9,603	13,133	12,161	9,180	12,151
Net increase in membership	6,929	9,540	10,145	14,028	6,705

Building a more secure future

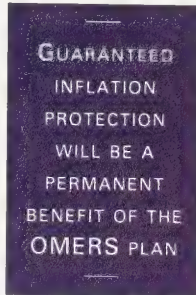
THE OMERS PLAN

The passage of the amendments to the OMERS Act and Regulation was, for OMERS, the major event of 1991. Some of the amendments, summarized below, constitute major changes in the plan benefits, and some are "housekeeping" changes that bring the OMERS plan into compliance with Provincial and Federal legislation.

Guaranteed Pension Indexing

Guaranteed inflation protection became a permanent benefit of the OMERS plan effective January 1, 1992. Annual pension increases will be composed of:

- a guaranteed inflation increase equal to 70% of the Consumer Price Index (CPI) increase measured from September to September, up to a maximum



guaranteed increase in any year of 6%; and

- an additional ad hoc "top-up" increase which may be recommended by the Board and approved by the Province when the plan surplus permits.

Any guaranteed increase in excess of the 6% maximum will be carried forward to future years.

Indexing applies to all pensions currently being paid, deferred pensions, and disability waiver earnings.

The January 1, 1992 pension increase of 5.47% was equal to 100% of the inflation rate for the period September 1990 to September 1991. The increase was composed of two parts: a 3.83% increase equal to 70% of the CPI increase, and a 1.64% ad hoc "top-up" recommended by the OMERS Board and approved by the Ontario Government.

WE'RE STILL GROWING

	1991	1990	% Change
Participating Employers	1,114	1,120	-0.5%
Active Members	187,467	180,538	+3.8%
Terminations	9,603	13,133	-26.9%
Normal Retirements	21,297	20,577	+3.5%
Early Retirements	12,994	11,760	+10.5%
Pensioners	47,331	44,670	+6.0%

Additional statistics are provided in the Five Year Review of Plan Data table on page 4.



Contribution Rate Increase

The cost of inflation protection will be financed through the plan surplus (which will cover the more than \$2 billion past service cost of benefits earned to date), enhanced long term investment returns, and a contribution rate increase for both members and employers of 0.5% of contributory earnings. The contribution rate increase was effective January 1, 1992.

30 Year Early Retirement

The 30 year early retirement provision permits all active members within 10 years of their normal retirement age and having 30 years of qualifying service to retire early with an unreduced pension. This benefit was previously available to some members through a Supplementary Agreement.

Individual Buy-Backs

Any active OMERS member may buy back prior Canadian public and war service, within certain limits, as credited service in the OMERS plan. The Buy-Back provision was effective December 20, 1991.

The cost, calculated by OMERS and paid entirely by the member, is the cost of the additional pension the plan will pay for the member's added service.

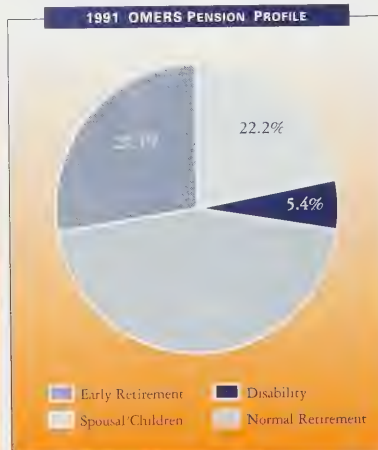
35 Year Maximum Service

From January 1, 1992 members who have 35 years or more of credited service will no longer be required to contribute to the OMERS plan. OMERS will continue to record contributory earnings and use them in the calculation of pensionable earnings after the member has passed the 35 year service maximum and has stopped contributing to the plan.

Maximum Pension

From January 1, 1992 the amount of pension an OMERS member may earn in a calendar year will be "capped" by the Income Tax Act. Contributions to OMERS will also be capped. The maximum will not apply to credited service that occurred prior to January 1, 1992, and the pension for pre-1992 service will still be calculated using actual pensionable earnings with no cap.

MANAGED PLANS		
	Ryerson	CAAT
Members	1,366	18,106
Pensioners	229	3,024
<i>Millions</i>		
Benefits paid in 1991	\$1.6	\$23.0
Investment in OMERS Fund	\$146	\$1,573
OMERS manages, for a fee, the pension plans of Ryerson Polytechnical Institute and the Ontario Colleges of Applied Arts and Technology (CAAT).		



Marriage After Retirement

The OMERS 60% spousal benefit is now available to the spouse of a deceased pensioner whose marriage took place after the member's retirement. OMERS will recognize post-retirement marriages which occurred before the effective date of this policy change, although there will be no back payments.

Surplus/Deficit Sharing

In the event that any surplus is withdrawn from the OMERS plan, it will be shared equally between employers and members. Plan deficits will also be shared equally through adjustments to contribution rates. This reflects the long-standing policy of equal sharing of contributions.

Other Changes

Some amendments bring OMERS into compliance with other legislation. For example, "spouse" will now be defined exactly as it is in the Pension Benefits Act; the child of a member who dies on or after January 1, 1992 must meet a new definition of a

dependent child to claim a survivor benefit; and a member who becomes disabled on or after January 1, 1992 must meet a new Revenue Canada definition of disability to claim a disability pension.

The changes were the most extensive to the OMERS Act and Regulation since 1978, and the Board is very pleased that these excellent improvements and additions to the OMERS plan are now in force. We look forward to implementing the changes in 1992.

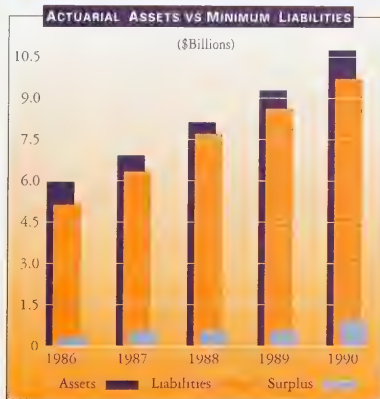
The Actuarial Valuation

The OMERS Actuarial Valuation at December 31, 1990, conducted by the Wyatt Company, shows that the current contribution levels and financial position of the Fund are sufficient to provide for existing plan benefits.

This valuation does not include the effects of the plan amendments of December 20, 1991. Taking into

account the plan changes, The projected plan surplus at December 31, 1991 is \$97 million, a reasonable surplus level.

ACTUARIAL VALUATION RESULTS		
(Millions)	as at December 31	
	1990	1989
Actuarial Assets	\$11,744	\$10,696
Actuarial Liabilities	10,949	9,705
Actuarial Surplus	795	991



Five Year Review of Financial Data

Millions	1991	1990	1989	1988	1987
<i>Investment at market value at December 31</i>					
Provincial debentures	\$1,301.3	\$ 1,143.3	\$ 1,205.4	\$ 1,162.4	\$1,160.8
Marketable securities	13,490.9	11,318.2	11,117.4	9,245.4	7,819.4
	\$14,792.2	\$12,461.5	\$12,322.8	\$10,407.8	\$8,980.2
<i>Assets at market value at December 31 available for</i>					
Basic benefits	\$13,091.3	\$11,139.8	\$11,163.0	\$9,384.7	\$8,131.9
Supplementary benefits	128.2	117.0	109.1	117.1	98.5
Managed plans	1,719.3	1,462.0	1,466.9	1,222.2	1,040.3
	\$14,938.8	\$12,718.8	\$12,739.0	\$10,724.0	\$9,270.7
<i>Investment income earned</i>					
Basic plan	\$763.4	\$783.3	\$916.0	\$715.5	\$828.4
Supplementary benefits	9.2	11.3	9.7	14.7	10.6
Managed plans	101.4	106.0	122.6	95.8	108.4
	\$874.0	\$900.6	\$1,048.3	\$826.0	\$947.4
<i>Contributions received for</i>					
Basic plan	\$764.6	\$683.3	\$590.9	\$525.1	\$477.0
Past service	18.2	35.5	19.7	19.6	51.6
Supplementary benefits	0.8	1.6	1.5	4.8	3.6
	\$783.6	\$720.4	\$612.1	\$549.5	\$532.2
<i>Payments to members</i>					
Pensions paid	\$327.9	\$278.5	\$244.6	\$208.4	\$165.4
Contrib./interest refunded	42.7	53.7	51.2	31.3	36.3
Transfers to other plans	13.2	5.3	4.1	2.9	3.8
	\$383.8	\$337.5	\$299.9	\$242.6	\$205.5
<i>Administrative expenditures and recoveries</i>					
Pension programme					
Gross	\$14.0	\$12.6	\$10.6	\$8.4	\$5.6
Fee recoveries	2.0	0.8	0.7	0.7	0.7
Net	\$12.0	\$11.8	\$9.9	\$7.7	\$4.9
Investment programme	14.4	12.7	9.7	6.8	6.4
	\$26.4	\$24.5	\$19.6	\$14.5	\$11.3
<i>Total Fund annual rates of return</i>					
Dollar-weighted return					
on book value	6.6%	7.6%	10.2%	9.1%	12.2%
Time-weighted return					
on market value	14.1%	-3.4%	16.1%	12.1%	5.8%

ADMINISTRATION

Service remains a priority for the OMERS plan. The goal of the redevelopment of our pension computer system is to significantly improve service to our members, employers, and pensioners by providing more information, more quickly and more efficiently. This is a key project for both the Pension and Administration Divisions.

The whole project is very complex and will take several years to complete. The first phase, the redevelopment of the pension payroll system, was the focus of our attention in 1991. It will be completed in the autumn of 1992.

OMERS adopted a new budget approach in 1991. The "programme budget", designed to improve specific cost tracking and analysis, will allow us to measure the effort being directed to each of our main activities more effectively. It will also improve our ability to assess the impact changes will have on our operating budgets.

THE GOAL
OF THE
REDEVELOPMENT
PROJECT IS TO
SIGNIFICANTLY
IMPROVE
SERVICE

OMERS was originally designated as a financial institution for GST purposes, a designation that added significantly to our projected operating costs. After lengthy negotiations we achieved "zero-rated" status as an agency of the Province of Ontario. This change will allow us to save an estimated \$1.5 million annually.

Our new master custodian bank, selected in 1990, was installed without disruption to our financial systems. Approximately \$9 billion in assets in twenty-one separate portfolios were transferred from five previous custodian banks. This conversion was one of the largest ever in Canada.

OMERS is pleased with the performance of the custodian bank which is achieving our accounting and administrative objectives economically. The new arrangement gives OMERS better control over cash and securities processing; more accurate, timely, and relevant reports; and better service to our investment managers.

GLOBAL DISTRIBUTION OF HOLDINGS

(% of total Fund at market value)



CONSOLIDATED INVESTMENT ASSETS

Market Value as at December 31 (000's) 1991 1990

Fixed Income Investments

Cash and Short Term	\$693,261	\$678,149
Ontario Debentures	1,301,287	1,143,320
Marketable Bonds	1,409,978	1,122,312
Private Placements - Debt	296,609	269,842
Mortgages: • Residential - Insured	1,047,317	1,113,141
• Commercial - Uninsured	929,774	794,682
Total Fixed Income Investments	\$5,678,226	\$5,121,446

Equity Investments

Stocks

Canadian: • Internally Managed	\$4,075,620	\$3,626,067
• Index Funds	1,065,332	955,173
• Externally Managed	602,365	529,781
Foreign: • Internally Managed	786,603	642,763
• Index Funds	244,947	0
• Externally Managed	788,247	398,249
Total Stocks	7,563,114	6,152,033
Private Placements - Equity	182,402	266,873
Total Equity Investments	\$7,745,516	\$6,418,906

Real Estate \$1,368,418 \$921,158

Total Investments at Market Value \$14,792,160 \$12,461,510

TOTAL RETURNS

(%) including unrealized gains or losses	1 year	4 years	10 years
Bonds & Debentures	24.0	13.9	16.6
Mortgages	16.7	12.5	15.9
Private Placements - Debt	8.9	12.1	13.8
Canadian Stocks	12.3	7.9	11.1
Foreign Stocks	19.6	10.8	15.0
Private Placements - Equity	1.5	-1.6	4.2
Real Estate	0.1	6.2	8.0
Portfolio Average Return	14.1	9.5	13.7
ScotiaMcLeod Universe Bond Index	22.7	14.2	16.0
TSE 300	12.0	6.5	10.0
World Index*	20.8	6.6	17.1
Consumer Price Index	3.8	4.5	4.8

*Morgan Stanley World Index & Salomon Russell Global Index

THE FUND

Financial markets fared reasonably well although conflict, political instability, and recession or weak economic growth characterized 1991 around the world. The conflict between the Western powers and Iraq, the Gandhi era ending in India, South Africa apparently renouncing apartheid, and the collapse of the Soviet Union with an attendant realignment of political and economic loyalties all gave rise to the prediction of a "new world order". Global equity markets were particularly volatile, but annual returns proved to be substantially higher than those of 1990.

In Canada, conditions were exacerbated by falling export revenues and employment. The Canadian economy contracted by 1.5% after minimal expansion in 1990, dampening inflation so that the Consumer Price Index increased only 3.8% in the 1991 calendar year.

Despite the weak economy, the Toronto Stock Exchange 300 Index gained 12% in 1991. Canadian fixed income securities produced exceptional returns as the Bank of Canada lowered interest rates dramatically. Several factors, but particularly the drop in the inflation rate, caused the decline in short and long term interest rates. Key lending rates in America fell to their lowest level in more than 20

1991 PROVED
CONSIDERABLY
MORE
REWARDING
TO EQUITY
INVESTORS THAN
1990

years. In Canada, three-month Treasury Bills started the year around 10.5% and ended near 7.0%. The fall in the chartered banks' prime rate from 12.75% to 8.0% - a drop of 475 basis points - was even sharper.

OMERS maintained its investment discipline, emphasizing fundamental value, diversification, and a long term investment horizon. At 14.1%, investment returns increased significantly over the previous year's, reflecting improved conditions in equity and, more particularly, fixed income markets.

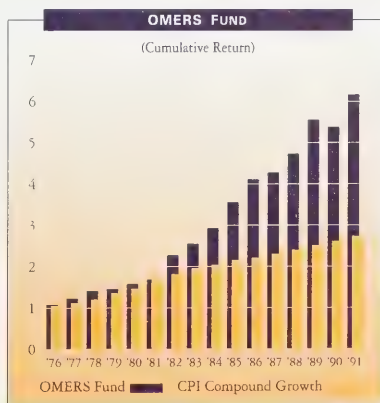
Our total returns substantially outperformed our *Consumer Price Index plus 4.25%* real return requirement during 1991, as well as over four and ten year periods.

Bonds & Mortgages

With the dramatic drop in interest rates, the Marketable Bond Portfolio earned a return of 22.7%, with an average return of 14.2% over four years, and 16% over ten. The performance of the Marketable Bond Portfolio in 1991 reinforces our belief that a disciplined, quantitative approach to

portfolio management adds value over the short and long term.

OMERS established an in-house, long government bond index fund of \$141 million in May, 1991. This fund, one of the first in Canada and



undoubtedly the largest, has successfully tracked its reference index, the Burns Fry Long Government Bond Index, since its inception. We also continued term extension by replacing maturing mid-term instruments with longer term bonds.

Since OMERS never participated in the speculative mortgage lending of the 1980's, our Mortgage Portfolio continues to perform well, with a 16.7% return in 1991 in spite of the difficult economic conditions. New underwritings emphasized higher quality loans, but still produced a substantial yield advantage over Government of Canada bonds.

The total fixed income investment return was 18.7%, reflecting the exceptional decline in interest rates.

Equity Investments

Equity investments proved considerably more rewarding in 1991 than in 1990. In spite of great volatility, equity markets generally earned satisfactory rates of return, although they trailed fixed income markets, particularly in Canada.

We committed a minimum of new funds to Canadian and foreign markets during the first quarter, when markets were particularly strong. In accord with our investment discipline and approach, we

**THE SMALL
CAPITALIZATION
FUND EARNED
A RATE OF
RETURN OF
21.6%
IN 1991**

placed the bulk of new investment in the latter part of the year.

Canadian Equity

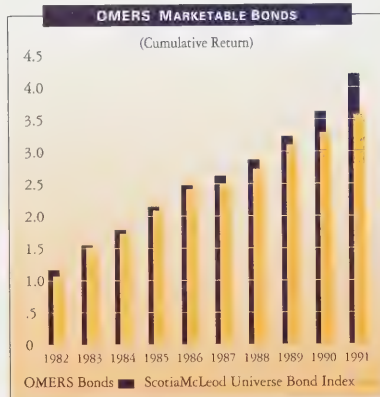
The Canadian Core Fund, which comprises the majority of our Canadian equity investments, is structured

to provide a high dividend yield, with a high return on equity and internal growth rate relative to the TSE 300. The Fund earned 12.4% in 1991, with an average return of 8.3% over four years and 11.5% over ten years - all significantly higher than the TSE 300. We have adopted a slightly more aggressive portfolio diversification by increasing holdings of companies that will derive a direct benefit from an improvement in business conditions, and we expect to continue this strategy in 1992.

The Small Capitalization Fund, already the largest of its kind in Canada, achieved a significant increase in total assets through the investment of some \$35 million in new funds and through market appreciation in the value of its holdings. The portfolio earned a rate of return of 21.6% in 1991.

In spite of substantial price appreci-

ation, this sector of the market continues to offer good investment value. We intend to commit additional funds in 1992. The portfolio is well diversified, has attractive investment characteristics, and



can be expected to produce superior rates of return in the future.

Externally managed funds also performed satisfactorily. Canadian equity index portfolios were fully funded in 1991 and produced returns that closely followed the TSE 300.

Foreign Equity

Implementation of our new foreign equity structure, begun in 1990, was completed. Additional managers were chosen for the European markets, for emerging markets, for U.S. small capitalization stocks, and for international index portfolios.

Funding of the International Index Fund began in April. By year end it was valued at \$247 million, with 47% committed to Europe and 53% to the Pacific.

Emerging and Pacific rim markets earned very attractive rates of return in 1991. Latin American and South East Asian markets, particularly Hong Kong, were strong performers during the year.

The U.S. equity market provided among the highest returns in 1991 of all the international markets. The OMERS U.S. Portfolio achieved a rate of return of 25.5%, the highest of all our portfolio segments.

We expect to establish the U.S. part of our Index Fund in 1992,

LATIN AMERICAN
AND SOUTH
EAST ASIAN
MARKETS,
PARTICULARLY
HONG KONG,
WERE STRONG
PERFORMERS

which should bring our commitment to passive equities up to our target level of 20% of marketable equities.

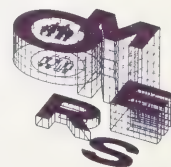
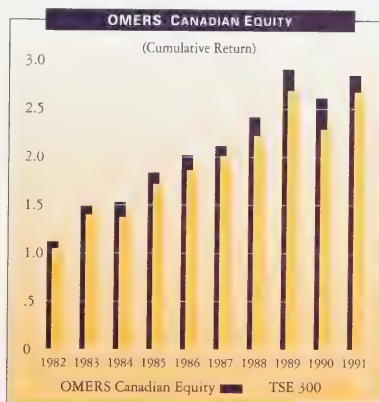
Private Placements

The status of the Private Placement portfolios was reviewed during 1991. The study confirmed that OMERS commitment to privately placed, non-marketable debt and equity investments will provide portfolio diversification while offering potentially high rates of return over the longer term. The review also led to OMERS adopting a more disciplined and structured approach to initiating new investments and managing private placement debt and equity portfolios. We are now investing in companies with a proven track record and a higher credit rating. Better review and control procedures have been established.

Private Placement Equity holdings declined as we sold venture capital investments and other holdings, and as soft business conditions necessitated writedowns.

The average size of new commitments in the Private Placement Debt portfolio was significantly higher than

in previous years, reflecting our new strategy of investing greater amounts in more substantial companies. The severity of the recession also required writedowns against the debt portfolio.



Real Estate

Although 1991 was an extremely difficult year for developers and landlords, the recession has provided a unique opportunity for OMERS Realty Corporation to acquire outstanding real estate investments at low prices, particularly in Alberta and Ontario.

As of December 31, 1991, the market value of the portfolio increased to \$1,368.4 million, about 9% of the market value of the total OMERS Fund. Of the real estate portfolio approximately 62% is in operating office buildings, 23% is in operating retail properties, and 15% is in land or projects under construction. Diversified geographically, the portfolio holdings are 8% in British Columbia, 16% in Alberta, 72% in Ontario, and 4% in Quebec.

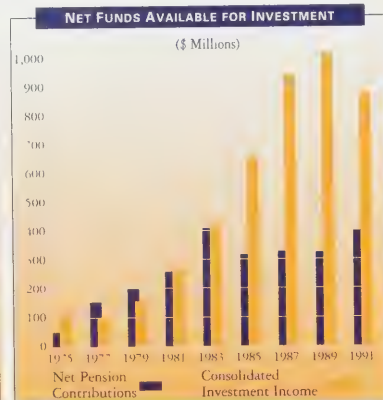
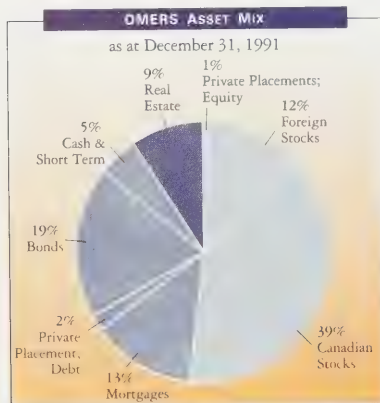
Other Issues

OMERS asset mix policy was reviewed in the fall. The Statement of Investment Policy and Goals, amended

to incorporate the Conflict of Interest Guidelines adopted in July 1991, was reaffirmed as required under the Ontario Pension Benefits Act. A major policy initiative for 1992 will be the comprehensive review of OMERS asset mix, particularly as it relates to foreign investment.

Other initiatives include feasibility studies examining the possible in-house management of global equities and Canadian indexed funds. OMERS is also reviewing and refining its approach to corporate governance issues.

Political events in 1992, like the British and American elections or further constitutional discord in the Commonwealth of Independent States, may well have an impact on financial markets. However, most international markets continue to offer reasonably good value, as do Canadian markets. We expect business conditions to improve in Canada and the United States during 1992.



*Actuarial
Cost
Certificate*

AS AT DECEMBER 31, 1991
FOR THE ONTARIO MUNICIPAL EMPLOYEES
RETIREMENT BOARD

Wyatt

The most recent actuarial valuation of the Ontario Municipal Employees Retirement System was conducted as at December 31, 1990 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The results of the actuarial valuation disclosed total Actuarial Liabilities of \$10,948.863 million in respect of benefits accrued for service prior to December 31, 1990, including the effect of an ad hoc adjustment in pensions as at January 1, 1991. The Actuarial Assets at that date were \$11,744.033 million indicating an actuarial surplus of \$795.170 million.

The results of the actuarial valuation also indicated that the existing levels of member and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1991 taking into account the amendments made to the Plan up to December 31, 1991 and proposed changes in the Actuarial Valuation Basis at that date. The Plan amendments include Pension and Tax Reform requirements as well as an ad hoc adjustment in pensions as at January 1, 1992, contractual indexing at the rate of 70% of the increase in the Consumer Price Index effective January 1, 1992, unreduced pensions after 30 years of service and an increase in both member and employer contributions of 1/2% of covered earnings. The proposed changes to the Actuarial Valuation Basis are intended to better reflect expected long term economic conditions while, at the same time, taking account of the contractual indexing provisions of the Plan. Further, we have calculated the Actuarial Assets at December 31, 1991.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1991 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted
THE WYATT COMPANY



Martin J.K. Brown, F.I.A., E.C.I.A.
Fellow, Canadian Institute of Actuaries
April 1, 1992

*Auditors
Report*



Peat Marwick Thorne

Chartered Accountants

TO THE ONTARIO MUNICIPAL EMPLOYEES
RETIREMENT BOARD

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1991 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Toronto, Canada

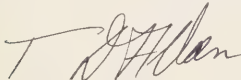
April 1, 1992

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF NET ASSETS

<i>December 31 (000's)</i>	1991	1990
ASSETS		
Investments (note 1)	\$14,792,160	\$12,461,510
Long term receivables (note 2)	116,601	132,005
Fixed assets (note 3)	1,588	1,522
Contributions receivable	71,089	57,694
Accrued income	98,866	87,831
	<u>15,080,304</u>	<u>12,740,562</u>
LIABILITIES		
Due to administered pension plans (note 4)	1,719,313	1,461,960
Provision for supplementary retirement benefits (note 5)	128,183	117,001
Due to brokers	141,472	21,770
	<u>1,988,968</u>	<u>1,600,731</u>
NET ASSETS (note 6)	<u>\$13,091,336</u>	<u>\$11,139,831</u>

Signed on behalf of the Board,


Member


Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

<i>Year ended December 31 (000's)</i>	1991	1990
INCREASES IN NET ASSETS		
Contributions (note 7)	\$ 783,552	\$ 720,424
Investment income (note 8)	763,410	783,308
Unrealized market appreciation of investments	814,728	0
	<u>2,361,690</u>	<u>1,503,732</u>
DECREASES IN NET ASSETS		
Unrealized market depreciation of investments	0	1,164,918
Benefits (note 9)	383,779	337,454
Administrative expenditures (note 10)	26,406	24,530
	<u>410,185</u>	<u>1,526,902</u>
INCREASE (DECREASE) IN NET ASSETS	1,951,505	(23,170)
Net assets at beginning of year	11,139,831	11,163,001
NET ASSETS AT END OF YEAR	<u>\$13,091,336</u>	<u>\$11,139,831</u>

Consolidated Financial Statements

Year ended December 31, 1991

GENERAL

The Ontario Municipal Employees Retirement System (OMERS) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the Ontario Municipal Employees Retirement System Act (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the Pension Benefits Act of Ontario, Registration #C006725.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service while in OMERS and the average annual contributory earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The Pension Benefits Act of Ontario (PBA) requires that participating employers must fund the benefits determined under the Plan. In accordance with the PBA the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, for members who meet the plan requirements, early retirement benefits, death benefits, disability waivers and benefits, and termination benefits are available. Complete information may be found in the OMERS Act or by contacting OMERS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

Certain of the Fund's term loan, real estate, mortgage and resource investments are held by wholly owned subsidiaries. The consolidated financial statements include the accounts of the Fund and all subsidiaries.

Investments

Investments are stated at market value and are recorded as of the trade date. Securities are valued at year end quoted market prices where available. Where quoted market values are not available, estimated values are calculated by discounting cash flows based on market yields, using annual independent real estate appraisals, or comparative securities.

Notes to Consolidated Financial Statements (continued)

(000's)

Gains and losses on disposal of investments are credited or charged to investment income. Investment income is recorded on the accrual basis.

Fixed Assets

Computer equipment is recorded at cost and is depreciated on a straight-line basis over five years.

1. INVESTMENTS

	1991		1990	
	Market Value	Cost	Market Value	Cost
Cash and short				
term deposits	\$693,261	\$693,261	\$678,149	\$678,149
Canadian bonds				
and debentures	2,711,265	2,638,470	2,265,632	2,418,111
Private debt	296,609	283,015	269,842	261,264
Mortgages	1,977,091	1,859,699	1,907,823	1,885,169
Canadian equities	5,743,317	5,391,129	5,111,021	5,170,960
Non-Canadian equities	1,819,797	1,496,750	1,041,012	931,718
Real estate	1,348,018	1,377,810	864,625	833,972
Real estate debentures	20,400	20,400	56,533	56,533
Venture capital	0	0	82,968	85,408
Resource properties	57,967	56,441	75,220	77,592
Private equities	124,435	128,551	108,685	137,671
	\$14,792,160	\$13,945,526	\$12,461,510	\$12,536,547

Canadian bonds and debentures include Province of Ontario debentures having a cost of \$1,293,025 (1990 - \$1,293,025), bearing a weighted average interest rate of 9.07% and maturing at various dates beginning on December 31, 1993 through December 31, 2006.

At December 31, 1991, the Fund held individual investments whose market or cost value exceeded 1% of the market or cost value of investments in total:

	Number of Investments	1991 Aggregate	
		Market Value	Cost
Canadian equities	10	\$2,135,580	\$1,578,278
Canadian bonds	1	180,544	172,791
Real estate under development	2	413,181	383,220
		\$2,729,305	\$2,134,289

Notes to Consolidated Financial Statements (continued)

(000's)

2. LONG TERM RECEIVABLES

Under the terms of the OMERS Act certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long term receivables to be paid, with interest, over a period not to exceed fifteen years.

3. FIXED ASSETS

		1991		1990
	Cost	Accumulated depreciation	Net	Net
Computer Equipment	\$4,070	\$2,807	\$1,263	\$1,306
Computer Software	507	236	271	133
Other Equipment	173	119	54	83
	<u>\$4,750</u>	<u>\$3,162</u>	<u>\$1,588</u>	<u>\$1,522</u>

4. DUE TO ADMINISTERED PENSION PLANS

The administered pension plans which form part of the Fund, are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnical Institute, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

**5. PROVISION FOR SUPPLEMENTARY
RETIREMENT BENEFITS**

In 1991 and previous years certain participating employers entered into agreements with the Board for provision of supplementary retirement benefits in addition to those provided by OMERS. Funding contributions plus accumulated income is reported as a plan liability.

Effective January 1, 1992, certain supplementary retirement benefits have become part of the basic plan benefits provided to all members and therefore are not subject to additional contributions. OMERS is presently reviewing the disposition of this liability with the related employer groups.

*Notes to
Consolidated Financial
Statements (continued)*

(000's)

6. NET ASSETS

The actuarial valuation was conducted as of December 31, 1990 and has been extrapolated to December 31, 1991. The projected unit credit method prorated on services, and certain funding assumptions were used in the valuation and the extrapolation.

Investments for financial statement purposes are valued at market value as at December 31, 1991, as disclosed in note 1. The actuarial value of net assets has been determined using total assets at cost adjusted for the average difference between market value and cost of equity and real estate investments over the last five year period. The objective of this process is to smooth out the effects of market volatility by averaging market values for equities and real estate while reflecting long term trends. The difference between the values used for financial statement purposes and market related values used for actuarial purposes gives rise to "market value changes not reflected in actuarial value of net assets."

The actuarial present value of accrued pension benefits includes benefits for active members, pensioners and deferred vested pensioners.

The extrapolation of the actuarial valuation to December 31, 1991 has taken into account amendments made to the plan up to December 31, 1991 and proposed changes to actuarial assumptions. The plan amendments include pension and tax reform requirements as well as an ad hoc adjustment to pensions as at January 1, 1992, contractual indexing at the rate of 70% of the increase in the Consumer Price Index effective January 1, 1992, unreduced pensions over 30 years of service and an increase in both member and employer contributions of 1/2% of covered earnings.

The proposed changes to the actuarial assumptions are intended to better reflect expected long term economic conditions while, at the same time, taking account of the indexing provisions of the plan.

The 1990 comparative amounts have been restated to reflect the results of the actuarial valuation conducted as of December 31, 1990.

Notes to Consolidated Financial Statements (continued)

	(000's)	
	1991	1990
Market value of net assets at end of year	\$13,091,336	\$11,139,831
Add (deduct) market value changes not reflected in actuarial value of net assets	(211,336)	604,169
Actuarial value of net assets at end of year	12,880,000	11,744,000
Actuarial present value of accrued pension benefits at beginning of year	\$10,949,000	\$ 9,705,000
Amendments to the plan	3,375,000	0
Ad hoc increases to pension benefits	51,000	176,000
Change in actuarial assumptions	(2,718,000)	0
Interest accrued on benefits	734,000	650,000
Benefits accrued	693,000	639,000
Benefits paid	(301,000)	(278,000)
Experience losses	0	57,000
Actuarial present value of accrued pension benefits at end of year	\$12,783,000	\$10,949,000
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	\$97,000	\$795,000

7. CONTRIBUTIONS

	1991	1990
Members	\$375,728	\$336,430
Employers, current service	375,728	336,430
Employers, long term receivables and interest thereon (note 2)	18,226	35,468
Transfers from other pension plans	13,116	10,468
Unreduced early retirement benefits (note 5)	754	1,628
	\$783,552	\$720,424

Notes to Consolidated Financial Statements (continued)

(000's)

8. INVESTMENT INCOME

	1991	1990
Short term deposits	\$57,260	\$90,908
Canadian bonds and debentures	231,497	228,157
Private debt	29,753	31,187
Mortgages	211,444	206,091
Canadian equities	198,960	200,889
Non-Canadian equities	37,566	28,386
Mutual funds	0	630
Real estate	71,027	32,337
Real estate debentures	0	3,144
Venture capital	186	(493)
Resource properties	4,322	681
Private equities	11,874	3,861
	853,889	825,778
Realized capital gains	20,136	74,846
	874,025	900,624
Less income credited to:		
Administered pension plans	(101,455)	(105,963)
Provision for supplementary retirement benefits	(9,160)	(11,353)
	\$763,410	\$783,308

9. BENEFITS

	1991	1990
Members' pensions	\$327,866	\$278,462
Members' contributions plus interest refunded	42,710	53,730
Transfers to other pension plans	13,203	5,262
	\$383,779	\$337,454

*Notes to
Consolidated Financial
Statements (continued)*

(000's)

10. ADMINISTRATIVE EXPENSES

	1991	1990
Personnel services	\$15,667	\$12,830
Transportation & communication	940	1,082
Actuarial services	760	649
Audit services	256	268
Legal services	317	520
Other professional services	1,502	718
Other purchased services	6,282	6,123
Materials & supplies	2,653	3,159
	<hr/> 28,377	<hr/> 25,349
Less: Management fees from administered pension plans	1,971	819
	<hr/> \$26,406	<hr/> \$24,530

Officers and Directors

DIRECTORS

Chair

MR T.D. ALLAN
Police Officer,
Durham Regional Police Force

1st Vice Chair

MR J.V. SHERLOCK
Trustee, Halton Roman Catholic
Separate School Board

2nd Vice Chair

MS A. DUBAS
Public Health Nurse, City of Toronto

Past Chair

MR T.A. ARKEVELD
Superintendent of Business and
Treasurer, Leeds and Grenville County
Board of Education

MS N.J. BARDECKI
Director, Municipal Finance Branch,
Ministry of Municipal Affairs

MS D.F. GRABER
Administrative Supervisor,
Dept. of Transportation,
Municipality of Metropolitan Toronto

MR G.W. LAWSON
Commissioner of Finance and
Treasurer, Regional Municipality of
Hamilton-Wentworth

MR G.R. MUGFORD
Firefighter, City of Toronto

MS S. PEEBLES
Social Worker,
Algoma District Social Services

MR G.B. SINCLAIR
Mayor, City of Etobicoke

IMMEDIATE CHAIRMAN

Chair

MR G.W. LAWSON

Vice Chair

MR G.R. MUGFORD

RESERVING CHAIRMAN

Chair

MS S. PEEBLES

Vice Chair

MS D.F. GRABER

FINANCE CHAIRMAN

Chair

MS A. DUBAS

Vice Chair

MR G.B. SINCLAIR

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President and C.E.O.

MR M.E. BESWICK
Senior Vice President, Pension Division

MR R.W. GLADSTONE
Senior Vice President, Administration Division

MR R.L. SILLCOX
Senior Vice President, Investment Division

MS M.J. WILLIAMS
Senior Vice President, Human Resources Branch

ACTUARY AND LEGAL ADVISORS

Actuary

THE WYATT COMPANY

Auditors

PEAT MARWICK THORNE

Legal Advisor

OSLER, HOSKIN & HARCOURT

Medical Advisor

DR C. WEST



One University Avenue, Suite 1000, Toronto, Ontario M5J 2P1
(416) 369-2400, 1-800-387-0813



CASON
TR 20
-A56

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

ANNUAL REPORT

1992

1962 April 18 OMERS Act given royal assent. July 4, Regulations issued. • **1963** First members enrolled January 1. 2% "career average earnings" plan. • **1965** Contributions locked-in under Pension Benefits Act (10 years service and age 45). Provision made for OMERS to manage other pension plans - first plan is Ryerson. • **1966** Contributions and benefits integrated with Canada Pension Plan, Utility Commissions and Children's Aid Societies become eligible to join OMERS. • **1967** Supplementary benefits introduced, enhanced benefits available to employer groups. Administration of Colleges of Applied Arts and Technology (CAAT) Pension Plan commenced. • **1968** All municipal employees hired after July 1 must join OMERS to receive a pension. Responsibility for Plan transferred from Minister of Municipal Affairs to 11 member Board. Benefit formula increased from 2% to 2.2% of career average earnings. • **1969** Disabled widower's pension introduced in addition to the widow's pension. Payments to children of deceased member extended from age 18 to age 21. First supplementary benefit agreement entered into. • **1971** First ad hoc pension increase, 10%. Surviving spouse's pension increased by 10% for each dependent child to a maximum of 75% of member's pension. • **1972** 5% ad hoc pension increase. Municipal councillors eligible for membership in OMERS. • **1973** 5% ad hoc pension increase. • **1974** 5% ad hoc pension increase. Part of the OMERS Fund to be invested in marketable securities beginning in 1975. • **1975** Widower entitled to same 50% pension as a widow on death of a member. • **1976** 10% ad hoc pension increase. Optional Service added to supplementary benefits. • **1977** Interest on member contributions increased from 3% to 5%. • **1978** 3% ad hoc pension increase. Pension formula changed to a 2% highest 5 year average earnings plan. Both member and employer contributions increased by 1.5%. Disability waiver benefit introduced. • **1979** All new monies in the OMERS Fund invested in marketable securities. • **1981** 4% ad hoc pension increase. Spousal benefits cover remarriage and not reduced regardless of age relationship to member. • **1982** 4% ad hoc pension increase. • **1983** 4% ad hoc pension increase. 90 Factor unreduced pension if within 10 years of NRA introduced. • **1984** 4% ad hoc pension increase. • **1985** 4% ad hoc pension increase. • **1986** 6.5% ad hoc pension increase. • **1987** 4.2% ad hoc pension increase. 85 Factor introduced for NRA 60. Interest on member contributions increased to 6.5% from 5%. • **1988** 4.2% ad hoc pension increase. All pensions adjusted to reflect at least 90% of the CPI increase since the pension began. Survivor benefits increased to 60% of member's pension. Changes to the Pension Benefits Act - 1987: 2 year lock-in, 50% of pension paid by employer, prudent person investment rule, etc. • **1989** 4% ad hoc pension increase. OMERS Real Estate Corporation created. • **1991** 4.2% ad hoc pension increase. All pensions adjusted to reflect at least 75% of CPI increase since the pension began. Annual pension adjustment date changed from July 1 to January 1. Introduction of a 30 Year Early Retirement Provision. Individual Buy Back of prior public service. Post-retirement spouse entitled to Widow/Widower Pension. • **1992** 5.47% increase to pensions; 3.83% guaranteed indexing increase plus 1.64% ad hoc increase. 70% guaranteed inflation protection - max. 6% - introduced. Contributions cease after 35 credited service. Contribution rates increased by .5% each to members and employers. Changes resulting from the Income Tax Act - definitions of disability and dependent child, leave of absence and maximum pension limits. Board expanded to 13 members - pensioner plus one employer representative added. Surplus/deficit sharing introduced. NRA conversion available to a class of police/Lightkeepers. 30 employed pensioners may choose to rejoin the Plan. Disability benefits resume if relapse occurs within 6 months.

1992



The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 by the Ontario Government as a multi-employer pension plan for employees of local governments in Ontario. Some 1,121 municipalities, local boards and school boards participate in the OMERS plan. OMERS also manages the pension plans of Ryerson Polytechnical Institute and the Colleges of Applied Arts and Technology.

Managed by a Board appointed by the Ontario government, OMERS is operated by and for municipal employees. Nine members of the Board are employees of participating employers, two members are elected or appointed officials of municipalities or local boards, one member is a pensioner, and one member is a Provincial official.

OMERS is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund. OMERS is committed to providing appropriate and secure pension benefits for plan members while keeping member and employer contribution rates reasonable and stable.

Report

OMERS celebrated its 30th anniversary in 1992. We are proud of our history of growth, plan improvements and service.

The System has grown from 8,000 members, employed by 160 participating municipal employers, to nearly 190,000 members and over 50,000 pensioners drawn from more than 1,100 employers.

Begun as a simple plan offering a 2% career average pension, OMERS now offers a "final average earnings" pension with guaranteed indexing. Other changes over the years have added or improved disability and survivor benefits and termination options.

The OMERS Fund, originally invested entirely in special, non-marketable Provincial debentures, began investing in marketable securities in 1975. The Fund investments have grown from about \$5 million at the end of its first year to over \$15 billion at the end of 1992. The successful investment programme has helped to provide plan improvements through the years.

Allan Reeve, our President and C.E.O., will retire in June of 1993. He is one of the many people who have contributed to the success of OMERS over the past 30 years. Mr Reeve was with the Department of Municipal Affairs and worked with the consulting actuaries to establish OMERS in 1962. He served as liaison between OMERS and the Department from 1963 to 1966. From 1966 until his return to Municipal Affairs in 1969, Mr Reeve was Secretary-Treasurer of OMERS. He was a member of the Board from 1970 until 1974, while OMERS first studied, and then undertook, investment in marketable securities. Mr Reeve returned to OMERS as Executive Director in 1974, and we have seen extensive growth and change under his able leadership. On behalf of the Board, staff, members, employers and pensioners I wish to extend heartfelt appreciation to Al Reeve for his years of dedication to the fulfillment of our goal – providing secure and appropriate pension benefits for our members.

Major amendments to the OMERS plan, passed in December 1991, were implemented in 1992. The Board expanded from 11 to 13 members, including, for the first time, an OMERS pensioner. Plan changes included the introduction of guaranteed pension indexing, a 30 year early retirement provision, a prior service buy-back provision, and the extension of survivor benefits to spouses of post-retirement marriages. These benefit improvements were paid for by the plan surplus and by an equal contribution rate increase for both employers and plan members.

The actuarial valuation at December 31, 1991 shows a plan surplus of \$71.5 million. The surplus, which was greatly reduced by the costly plan

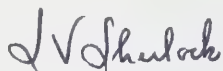
improvements, is expected to resume its growth as economic conditions and investment returns improve.

The OMERS Fund is structured to provide the higher returns required to meet the plan's long term liabilities. The Fund is reviewed continuously as part of the Board's management of the financial affairs of the plan, and a very thorough asset mix review is undertaken every four years. The comprehensive review undertaken in 1992 confirmed the existing asset mix policy, established in 1988, and suggested opportunities for further prudent diversification and return optimization. The Board accepted recommendations that OMERS expand its foreign investments, within the limits of the Income Tax Act, and that we include some foreign government and "real return" bonds in the portfolio.

Slow growth continued to characterize global economic conditions in 1992. Although some markets posted exceptionally strong results, both domestic and global markets were generally weak. The Canadian economy grew at a marginal 0.9%, the dollar declined sharply, and long term interest rates remained virtually unchanged despite very low inflation. Under these difficult conditions the OMERS Fund returned 3.6%.

The outlook for securities markets in 1993 is generally more favourable. Economic growth seems to be more firmly entrenched in the United States, and business conditions appear to be improving in Canada, although recovery in Germany and Japan continues to lag. With its emphasis on equities and real estate, the OMERS Fund will benefit from improvements in economic activity in Canada and abroad.

We look forward to the challenges of 1993. The Board, with the support of the dedicated staff at OMERS, will continue striving to honour our mission, "Working together for your retirement."



J.V. Sherlock
Chair

30 Years

OMERS celebrated its 30th anniversary on April 18, 1992. The OMERS Board is proud of its history of service to the members, employers and pensioners of the System.

The 1962 *Annual Report of the Ontario Municipal Employees Retirement System*, our first, reviewed the "reasons for the enactment of the OMERS Act" -

- to bring adequate pension benefits, for reasonable and stable employee and employer contributions, to municipalities and local boards that did not provide pensions to their employees,
- to bring together large and small municipalities, school boards and many local boards into a uniform and centrally administered pension plan that shared the risk and the cost, and
- to bring about pension portability among municipal employers, contributing to the development and availability of experienced municipal administrators.

Although there have been many changes to the plan in the past 30 years, these founding principles still describe the OMERS purpose, summed up as "Working together for your retirement."

On January 1, 1963, the first date of enrolment, over 8,000 employees of some 160 local government employers were enrolled in OMERS. At the end of our first 30 years there are almost 190,000 members from over 1,100 individual participating employers. The number of pensioners has grown from a handful in 1963 to just over 50,000. Fund investments have grown from about \$5 million at the end of 1963 to over \$15 billion at the end of 1992.

CHANGES TO THE PLAN

The OMERS plan began as a simple, 2% career average pension which vested immediately on membership. The first changes occurred when the Ontario Pension Benefits Act was introduced in 1965. For the first time pensions were "locked-in" when a terminating employee was 45 years of age or older and had at least 10 years of service.

In 1965 OMERS became the trustee for the Ryerson Retirement Pension Plan, and we assumed trusteeship for the Ontario Colleges of Applied Arts and Technology (CAAT) Pension Plan in 1967. In 1966 the OMERS Act and Regulation were amended to allow the employees of local utility commissions and children's aid societies to join the System.

The Canada Pension Plan (CPP) was introduced on January 1, 1966. OMERS contributions and benefits were integrated with the CPP to keep the members' total contributions and benefits close to their previous levels.

An eleven member Board was appointed to "manage and administer" OMERS in 1967, replacing the Minister of Municipal Affairs' direct management. The Honourable W. Darcy McKeough, Minister of Municipal Affairs at the time, initiated this effective transfer of the running of OMERS from provincial to municipal control. On January 1, 1968 OMERS became a pension plan operated "by municipal employees for municipal employees."

Supplementary benefits were introduced in 1969 with an agreement between OMERS and the City of Windsor. Each employer's supplementary plan was administered as a separate pension plan. Over time, many of the supplementary benefits became basic OMERS benefits and the administration of these agreements has been greatly simplified.

1978 was a landmark year in the history of OMERS. The basic plan pension formula changed from a career average earnings formula to one based on the average of the highest 60 consecutive months of earnings, frequently called "final average earnings." Member and employer contribution rates increased to pay for the significantly improved benefit the change in formula provided.

Major changes to the Pension Benefits Act in 1987 had a significant effect on the plan. OMERS improved benefits for surviving spouses from 50% to 60% of the member's pension. Terminating members' retirement benefits were "locked-in" after 2 years of plan membership and a guarantee that 50% of the pension would be paid by the employer was incorporated.

INFLATION PROTECTION

The first ad hoc increase to pensions, a 10% increase, was applied to all pensions January 1, 1971. This was followed by 5% increases in each of the following three years, and a further 10% increase in 1975. During the 1980s ad hoc increases to pensions became a regular feature of the plan as OMERS adjusted to the high inflation rate.

Guaranteed pension indexing was introduced in 1991. The indexing formula is 70% of the increase in the Consumer Price Index (CPI) measured over the 12 months ending in September of the year prior to the increase date. The maximum indexed increase in any year is 6%. If the guaranteed increase of 70% of the increase in the CPI is greater than 6%, the excess amount will be carried forward for use in a subsequent year. In addition, the OMERS Board examines the plan surplus each year and, if it is sufficient, the Board may recommend to the Ontario Government an ad hoc increase over the formula increase.

The introduction of inflation protection was one of the most significant benefit improvements undertaken in the last thirty years. The increased ongoing liability is covered by an increase in contribution rates for members and employers, the accumulated actuarial surplus, and an investment programme designed to maximize long term returns for the Fund.

INVESTMENT CHANGES

When OMERS began operations in 1963, the designers of the plan were anxious to keep pension benefits and contribution rates competitive with private plans. The original investment programme called for special Provincial non-marketable debentures to be issued with a stable, long term interest rate of 5%. This type of investment allowed OMERS to assume a long term rate of return of 5% for actuarial purposes at a time when actuaries generally assumed a market investment return of 4%. The higher assumed rate of investment growth permitted lower contribution rates.

When interest rates began to rise the Provincial debenture rate was adjusted. The rate was increased to 6.5% in 1968, and, in 1970, the Province paid OMERS "lost" past interest and changed the interest rate to a market rate, to be assessed annually thereafter.

The Board undertook a series of three separate studies of the OMERS investment programme in 1970, 1973 and 1974. Following the last report the Province permitted a legislative change that allowed the OMERS Board to invest the yearly cash flow in the same marketable securities available to private sector pension plans. From 1975 to 1978 a portion of each year's cash flow was invested in marketable securities. Beginning in 1979 all new funds were invested in marketable securities.

The 1987 Pension Benefits Act amendments included the "prudent person" investment rule. As the plan's trustee, the Board must invest the funds to provide returns that, together with member and employer contributions, will provide the pension benefits promised by the System. The Board's responsibility to exercise "the care, diligence and skill in the administration and investment of the pension fund that a person of ordinary prudence would exercise in dealing with the property of another person" is more than a legal requirement; it is a deeply felt obligation. Meeting that obligation is a large part of the Board's work.

For the last 30 years the OMERS plan has been successfully funded. The current economic climate in Canada and the rest of the world will be a test of the Board's ability to protect and enhance the value of pension benefits. The disciplined investment programme OMERS now employs is designed to meet this challenge.

THE PARTICIPANTS

The strength of OMERS lies in the interest, effort, and dedication of its many participants. Individually and collectively, the people who make up the System have made our first 30 years a success.

The following groups in particular have made significant contributions to the development of OMERS.

- The early “pioneers,” who launched OMERS in 1962, worked hard to plan a fair and flexible System that would deliver appropriate and secure pensions at reasonable and stable contribution rates.

- Provincial ministers and their staff have overseen the development of OMERS and have steered amendments to the OMERS Act and Regulation through the parliamentary and regulatory processes.

- The Board members, and there have been 51 over the past 30 years, have dedicated their time and knowledge to the guidance of the System.

- OMERS staff work to constantly improve service to members, pensioners and employers.

- Union, association and other member representatives, plus individual members and pensioners, have presented their suggestions for benefit improvements to the Board.

- Thousands of people working in the municipalities, school boards and local boards across Ontario have, for 30 years, administered this increasingly complex plan very well.

The Board would like to express its appreciation to all those who have contributed to the growth of OMERS over the past 30 years. We can all take pride in our past successes as we face future challenges together.

FIVE YEAR REVIEW OF PLAN DATA

	1992	1991	1990	1989	1988
Employers					
Municipalities	538	536	541	532	526
School boards	135	131	134	134	133
Other local boards	448	447	445	442	439
	1,121	1,114	1,120	1,108	1,098
Contributing Members					
by employer					
Municipalities	94,334	92,870	89,645	85,228	81,146
School boards	53,079	52,107	49,570	46,768	43,093
Other local boards	42,289	42,361	41,323	39,002	36,614
Inactive groups	89	129			
	189,791	187,467	180,538	170,998	160,853
by sex					
Female	89,612	86,903	81,940	76,135	69,678
Male	100,179	100,564	98,598	94,863	91,175
	189,791	187,467	180,538	170,998	160,853
by normal retirement age					
Age 65	166,571	164,306	157,831	151,650	142,348
Age 60	23,220	23,161	22,707	19,348	18,505
	189,791	187,467	180,538	170,998	160,853
Terminated members who have elected a deferred pension	7,769	7,444	7,107	6,300	5,052
Number of pensioners by type of pension					
Normal retirement	21,967	21,297	20,577	19,739	18,955
Early retirement	14,511	12,994	11,760	10,383	8,996
Disability pension	2,654	2,546	2,447	2,257	2,128
Spouses and children	11,278	10,494	9,886	9,308	8,701
	50,410	47,331	44,670	41,687	38,780
Total membership comprising					
Active members, inactive members and pensioners	247,970	242,242	232,315	218,985	204,685
Number of members enrolled each year	10,933	16,532	22,673	22,306	23,208
Number of members terminated each year	8,609	9,603	13,133	12,161	9,180
Net increase in membership	2,324	6,929	9,540	10,145	14,028

FIVE YEAR REVIEW OF FINANCIAL DATA

Millions	1992	1991	1990	1989	1988
Investments at market value at December 31					
Provincial debentures	\$ 1,303.7	\$ 1,301.3	\$ 1,143.3	\$ 1,205.4	\$ 1,162.4
Marketable securities	14,529.7	13,490.9	11,318.2	11,117.4	9,245.4
	<u>\$15,833.4</u>	<u>\$14,792.2</u>	<u>\$12,461.5</u>	<u>\$12,322.8</u>	<u>\$10,407.8</u>
Assets at market value at December 31 available for					
Basic benefits	\$14,004.8	\$13,091.3	\$11,139.8	\$11,163.0	\$9,384.7
Supplementary benefits	136.3	128.2	117.0	109.1	117.1
Managed plans	1,840.5	1,719.3	1,462.0	1,466.9	1,222.2
	<u>\$15,981.6</u>	<u>\$14,938.8</u>	<u>\$12,718.8</u>	<u>\$12,739.0</u>	<u>\$10,724.0</u>
Investment income earned					
Basic plan	\$815.4	\$763.4	\$783.3	\$916.0	\$715.5
Supplementary benefits	8.3	9.2	11.3	9.7	14.7
Managed plans	106.3	101.4	106.0	122.6	95.8
	<u>\$930.0</u>	<u>\$874.0</u>	<u>\$900.6</u>	<u>\$1,048.3</u>	<u>\$826.0</u>
Contributions received for					
Basic plan	\$878.1	\$764.6	\$683.3	\$590.9	\$525.1
Past service	11.5	18.2	35.5	19.7	19.6
Supplementary benefits	0.3	0.8	1.6	1.5	4.8
	<u>\$889.9</u>	<u>\$783.6</u>	<u>\$720.4</u>	<u>\$612.1</u>	<u>\$549.5</u>
Payments to members					
Pensions paid	\$372.6	\$327.9	\$278.5	\$244.6	\$208.4
Contrib./interest refunded	37.4	42.7	53.7	51.2	31.3
Transfers to other plans	12.9	13.2	5.3	4.1	2.9
	<u>\$422.9</u>	<u>\$383.8</u>	<u>\$337.5</u>	<u>\$299.9</u>	<u>\$242.6</u>
Administrative expenditures and recoveries					
Pension programme					
Gross	\$16.6	\$14.0	\$12.6	\$10.6	\$8.4
Fee recoveries	1.7	2.0	0.8	0.7	0.7
Net	<u>\$14.9</u>	<u>\$12.0</u>	<u>\$11.8</u>	<u>\$9.9</u>	<u>\$7.7</u>
Investment programme	15.6	14.4	12.7	9.7	6.8
	<u>\$30.5</u>	<u>\$26.4</u>	<u>\$24.5</u>	<u>\$19.6</u>	<u>\$14.5</u>
Total Fund annual rates of return					
Dollar-weighted return					
on book value	6.2%	6.6%	7.6%	10.2%	9.1%
Time-weighted return					
on market value	3.6%	14.1%	-3.4%	16.1%	12.1%

The year began with the implementation of the most extensive changes to the OMERS Regulation since 1978. The most significant plan improvement was the incorporation of a 70% guaranteed indexing formula paid for, in part, by a contribution rate increase for both members and employers. Other changes included a 30 year early retirement provision, a past service buy-back provision and survivor pensions for spouses of post-retirement marriages.

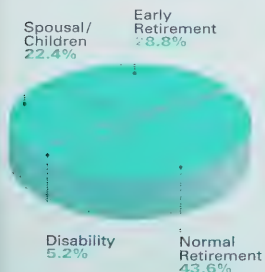
Additional amendments to the plan were passed in December, 1992. One change will set aside the disability elimination period for members suffering a relapse or recurrence of a disability within six months of a return to work. A class of police or firefighters, instead of the whole group, may now change their Normal Retirement Age. Re-employed pensioners will now be offered a choice of rejoining the plan while the pension is suspended, or continuing to receive the pension but not rejoining the plan.

A new agreement among major Ontario plans improved pension portability within the province, and a standard agreement will help members to transfer their pension benefits to other public sector plans.

A "downsizing" Supplementary Benefit, designed to allow employers greater flexibility in achieving reductions in staff through early retirement, was proposed in 1992. Approval is expected in 1993. Existing provisions for employer-purchased pensions will also be amended to permit employers who are officially downsizing to amortize the cost of the purchased pensions.

Another proposed plan change may permit members whose pensions are "capped" under the Income Tax Act to accrue pension, as they have in the past, for their full earnings. We hope to see approval of the "Full Earnings Pension" proposal in 1993.

1992 OMERS Pension Profile



INDEXED PENSION INCREASE

The January 1, 1993 pension increase of 1.26% was equal to 100% of the inflation rate for the period September 1991 to September 1992. The increase was composed of two parts – a 0.88% increase equal to 70% of the CPI increase, plus a 0.38% ad hoc "top-up" to 100% of the CPI increase recommended by the OMERS Board and approved by the Ontario Government – following the indexing formula introduced in January 1992. Indexing applies to all pensions currently being paid, deferred pensions, and disability waiver earnings.

MANAGED PLANS

OMERS manages, for a fee, the pension plans of Ryerson Polytechnical Institute and the Ontario Colleges of Applied Arts and Technology. In 1992, the Ryerson Retirement Pension Plan served 1,359 members and paid \$2 million in benefits to 241 pensioners. The Ryerson plan has \$155 million invested in the OMERS Fund.

The CAAT Pension Plan had 18,103 active members at the end of 1992 and paid \$28 million in benefits to 3,322 pensioners. The CAAT plan has \$1.7 billion invested in the OMERS Fund.

IMPROVED SYSTEMS

OMERS work is supported by the processing of vast amounts of information by an array of computer hardware and software. The maintenance and redevelopment of our systems is a continuous project.

Our completely revamped pension department computer system, PenServ, began operating in October, 1992. The installation of PenServ also involved the development of bridging or linking systems for the financial services department, who pay the pensions, and the membership department, who provide the retiring members' records. The more flexible PenServ system, combined with the new Advance Election of normal and early retirement pensions, will speed pension processing and help us deliver faster, better service to our pensioners.

A new database system, installed in January 1992, helps OMERS process Revenue Canada T4As more efficiently, while a new contribution record system developed in 1992 will improve the tracking of member and employer contributions in 1993 and beyond.

The redevelopment of the membership system, the next step in modernizing OMERS systems, will begin in 1993. It is a massive project that will be undertaken in stages and is expected to take several years to complete.

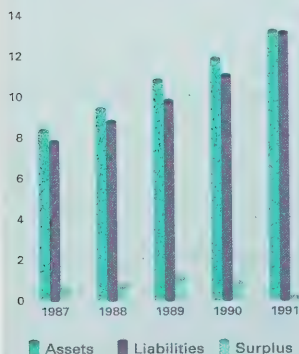
THE ACTUARIAL VALUATION

The OMERS actuarial valuation, conducted by The Wyatt Company, shows a greatly reduced surplus from the previous year. The valuation at December 31, 1991 incorporates for the first time the effect of the plan changes, including inflation protection. Indexing, a very significant but expensive benefit improvement, used up most of the existing plan surplus and required an equal contribution rate increase for members and employers in 1992. We anticipate the gradual recovery of the plan surplus to levels sufficient to provide a secure cushion to protect the plan from adverse experience.

Actuarial Valuation Results

as at December 31	(Millions)	1991	1990
Actuarial Assets	\$13,095	\$11,744	
Actuarial Liabilities	13,024	10,949	
Actuarial Surplus	71	795	

Actuarial Assets vs Minimum Liabilities (\$ Billions)



CONSOLIDATED INVESTMENT ASSETS

Market Value as at December 31 (000's)	1992	1991
<i>Fixed Income Investments</i>		
Cash and Short Term	\$856,673	\$693,261
Ontario Debentures	1,303,672	1,301,287
Marketable Bonds	1,467,918	1,409,978
Private Debt	277,614	296,609
Mortgages: • Residential - Insured	840,206	1,047,317
• Commercial - Uninsured	936,322	929,774
Total Fixed Income Investments	\$5,682,405	\$5,678,226
<i>Equity Investments</i>		
Stocks		
Canadian: • Internally Managed	\$4,076,247	\$4,075,620
• Index Funds	1,038,453	1,065,332
• Externally Managed	601,710	602,365
Foreign: • Internally Managed	899,098	786,603
• Index Funds	476,297	244,947
• Externally Managed	1,254,174	788,247
Total Stocks	8,345,979	7,563,114
Private Equities	159,273	182,402
Total Equity Investments	\$8,505,252	\$7,745,516
<i>Real Estate</i>	\$1,645,696	\$1,368,418
Total Investments at Market Value	\$15,833,353	\$14,792,160

TOTAL RETURNS

(%) including unrealized gains or losses	1 year	4 years	10 years
Bonds	10.7	14.3	13.4
Ontario Debentures	9.6	13.4	12.9
Mortgages	10.2	12.5	13.9
Private Debt	-7.7	7.1	11.2
Canadian Stocks	-1.3	3.4	9.4
Foreign Stocks	7.2	11.0	13.7
Private Equities	-13.8	-6.9	2.1
Real Estate	1.3	2.7	7.6
Total OMERS	3.6	7.3	10.9
Scotia McLeod Universe Bond Index	9.8	12.9	12.7
TSE 300	-1.4	3.4	9.2
Salomon Russell World Index	7.1	4.5	16.3
Consumer Price Index	2.1	4.0	4.1

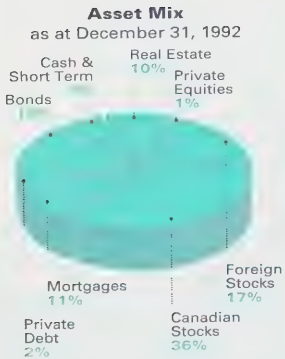
1992 ASSET MIX REVIEW

The OMERS investment programme must provide enough growth to meet the plan liabilities while meeting the need for stability and safety appropriate to a prudently managed pension plan. The Board conducted a comprehensive review of our asset mix in 1992, confirming, in general, the existing asset mix policy set out in the 1988 review. The targets remain 50 to 60% equities, 25 to 35% fixed income, and 10 to 15% real estate.

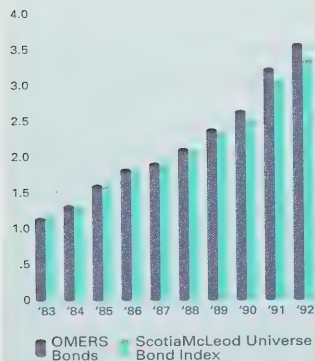
Our very large size, long investment horizon, and particular funding requirements also make it necessary and desirable to seek out opportunities for further diversification and return optimization within the dictates of prudence. The Board accepted a recommendation that OMERS invest in cost-of-living linked "real return" bonds and bonds issued by foreign governments. A recommendation for expanded foreign investment, within the constraints imposed by the Income Tax Act, was also accepted.

These additions to the investment programme are expected to enhance the diversification of the total Fund portfolio, making its returns less vulnerable to the wide fluctuations of the Canadian stock and bond markets.

1992 ASSET MIX



OMERS Marketable Bonds
(Cumulative Return)



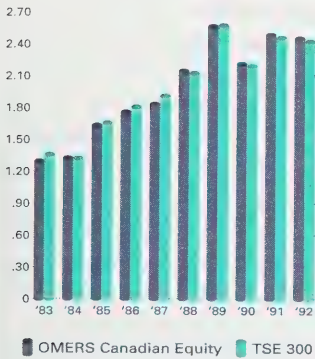
The Canadian economy grew at a marginal 0.9% in 1992. The dollar declined sharply as the slow economic growth, compounded by uncertainty over the future of the constitution, shook the confidence of international investors. Short term interest rates were volatile, while long term interest rates remained virtually unchanged despite very low inflation. Although some markets posted exceptionally strong results, equity returns were generally weak in 1992. Under these difficult conditions the OMERS Fund returned 3.6%.

Fixed Income Investments ➤ The marketable bond portfolio earned a respectable 10.7%, with an average return of 14.3% over four years and 13.4% over ten. Management of the in-house long government bond index fund, established in 1991, was transferred to a newly created unit responsible for both passive and derivative investments.

The mortgage portfolio continued to perform well, with a 10.2% return in 1992. New underwritings, totalling \$96 million, were low in volume but high in quality. OMERS maintains a conservative approach to mortgage lending that has kept our portfolio healthy in difficult times.

Canadian Equity ➤ The financial woes of several industries, including real estate, steel and airlines, helped to drive domestic equity returns down. The TSE 300 returned -1.4% for all of 1992. Reflecting these poor conditions,

OMERS Canadian Equity
(Cumulative Return)



our Canadian Core Fund saw a decline of 2.1%, with an average return of only 3.3% over four years and 9.6% over ten years.

Our Canadian Small Capitalization Fund, however, posted another strong return of 23.3% in 1992, exceeding its performance standard, the Burns Fry Small Capitalization Index, by over 10 percentage points. The largest of its kind in Canada, the fund now totals \$223 million. The small capitalization sector continues to offer good investment value although we expect a period of consolidation to follow the substantial price appreciation of recent years.

The combined returns of our internally managed Canadian portfolios have equalled or exceeded the TSE 300 index over one, four and ten years. External actively and passively managed Canadian equity funds performed satisfactorily in 1992, producing results that closely followed the TSE 300.

Although returns for the private placement equity and fixed income portfolios were disappointing in 1992, the restructuring begun in 1991 is expected to yield better returns as business conditions improve.

The decline in the value of the Canadian dollar in 1992 may improve the competitive position of Canadian industry, and stronger economic growth in the United States presages improvements in Canadian exports. We will continue to increase our holdings of well financed companies, emphasizing those that will derive a direct benefit from an improvement in business conditions.

Foreign Equity ➤ Foreign equity markets began the year well, but poor economic growth, disappointing corporate earnings, and political uncertainty eroded investor confidence. A sharp decline in Japanese equity and real estate markets, turmoil in currency markets caused by discord over German fiscal and monetary policy, political and economic instability in the former Soviet Union and in the Balkans, and the American presidential election all added to global uncertainty.

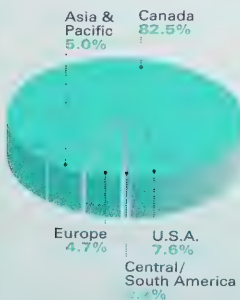
Foreign equity returns were generally weak, although some markets, Hong Kong for example, posted exceptionally strong results. European, Pacific Rim, and Emerging Markets now offer good opportunities for increased investment.

The U.S. equity portfolio returned 14.7% in 1992. Like its Canadian counterpart, the U.S. Small Capitalization portfolio offered, partly due to the Canadian dollar's decline in value, an exceptionally high return of 21.7%.

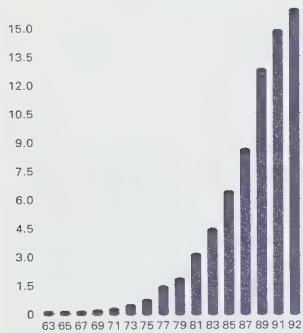
The actively managed foreign equity portfolio, excluding the U.S., fared comparatively well, returning 3.4% compared to -3.9% for the Salomon Russell Europe and Pacific Index. Total foreign equities earned 7.2%, exceeding the Salomon Russell Global Index return of 7.1%. Substantial new funds were allocated during the year, following the enactment of legislation raising the foreign content limit for pension funds to 16% of total book value. We expect to continue to emphasize foreign investments where it is prudent to do so.

Global Distribution of Holdings

% of Investments at Market Value
as at December 31, 1992



OMERS Investments
(\$ Billions)



Following the recommendations of the asset mix review, the Board approved expanded targets for our foreign equity holdings. We continued to improve our multi-currency accounting system tracking transaction details in local and Canadian currencies. Results of a feasibility study examining possible in-house management of part of the overseas equities portfolio are expected in 1993.

Real Estate ➤ The investment goal of OMERS Realty Corporation, a wholly-owned real estate subsidiary of OMERS, is to create a high quality, diversified portfolio of properties offering excellent returns over the mid to long term. Properties are purchased without debt financing, providing more stable returns. The restructuring of the real estate development industry in Canada and around the world in 1991 and 1992 has allowed OMERS to acquire domestic commercial properties of outstanding quality at low prices.

OMERS Realty now holds a direct interest in 27 properties, or approximately 6.95 million square feet of prime office and retail space, with a market value of about \$1.6 billion. Acquisitions in 1992 included One Financial Place in Toronto, University Club in Vancouver, and 50% of Oakridge Centre, the shopping centre with the highest sales per square foot in British Columbia.

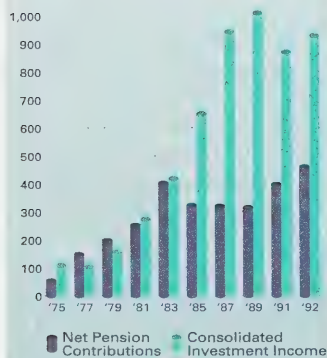
Over the past three years we have increased our holdings from about 6% to just over 10% of the Fund's investments. The asset mix review confirmed the long term benefits of further investment in real estate. Our portfolio returns have remained positive, reflecting the high quality of the acquired properties. Weak market conditions in Canada continue to offer opportunities to increase our real estate investment at very attractive prices.

Corporate Governance ➤ OMERS prepared a book of *Proxy Voting Guidelines* for publication early in 1993. The voting of proxies is a significant aspect of the Board's duty to protect the interests of the beneficiaries of the plan. The guidelines outline the Board's position on several corporate governance issues for investment managers and the companies in which OMERS invests. The development of comprehensive proxy voting guidelines is an evolutionary process; we will revise and refine our approach to matters of corporate governance periodically.

Outlook ➤ Although Germany and Japan remain in recession, economic growth appears to be more firmly entrenched in the United States and business conditions, led by greater export volumes, seem to be improving in Canada.

High levels of government deficit spending in Canada remain a concern, but signs of renewed economic growth in the United States offer enhanced prospects for the Canadian economy following a long period of slow growth. Inflation remains subdued and the outlook for securities markets in 1993 is generally favourable. With a designed emphasis on equity and real estate, the OMERS Fund will benefit from improved economic activity in Canada and abroad.

Net Funds Available for Investment
(\$ Millions)



ACTUARIAL COST CERTIFICATE

As at December 31, 1992

For the Ontario Municipal Employees Retirement Board

Wyatt

The most recent actuarial valuation of the Ontario Municipal Employees Retirement System was conducted as at December 31, 1991 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The results of the actuarial valuation disclosed total Actuarial Liabilities of \$13,023.580 million in respect of benefits accrued for service prior to December 31, 1991, including the effect of amendments to the Plan made as of December 20, 1991 and January 1, 1992 and an ad-hoc adjustment in pensions as at January 1, 1992. The Actuarial Assets at that date were \$13,095.119 million indicating an actuarial surplus of \$71.539 million.

The results of the actuarial valuation also indicated that the existing levels of member and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1992 taking into account amendments made to the Plan up to December 31, 1992. Further, we have calculated the Actuarial Assets at December 31, 1992.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1992 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted
THE WYATT COMPANY

Martin Brown

Martin J.K. Brown, F.I.A., F.C.I.A.
Fellow, Canadian Institute of Actuaries
April 19, 1993

AUDITORS' REPORT

To the Ontario Municipal Employees Retirement Board

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1992 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1992 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Toronto, Canada

April 19, 1993

KPMG Peat Marwick Thorne

Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS**Consolidated Statement of Net Assets**

December 31 (000's)	1992	1991
<i>Assets</i>		
Investments (note 2)	\$15,833,353	\$14,792,160
Long term receivables (note 3)	98,218	116,601
Contributions receivable	82,560	71,089
Accrued income	130,480	100,454
	<u>16,144,611</u>	<u>15,080,304</u>
<i>Liabilities</i>		
Due to administered pension plans (note 4)	1,840,466	1,719,313
Provision for supplementary retirement benefits (note 5)	136,303	128,183
Due to brokers	162,987	141,472
	<u>2,139,756</u>	<u>1,988,968</u>
<i>Net Assets</i> (note 6)	<u>\$14,004,855</u>	<u>\$13,091,336</u>

Signed on behalf of the Board,



Member



Member

Consolidated Statement of Changes in Net Assets

Year Ended December 31 (000's)	1992	1991
<i>Increases in Net Assets</i>		
Contributions (note 7)	\$ 889,856	\$ 783,552
Investment income (note 8)	815,367	763,410
Unrealized market appreciation of investments	0	814,728
	<u>1,705,223</u>	<u>2,361,690</u>
<i>Decreases in Net Assets</i>		
Unrealized market depreciation of investments	338,304	0
Benefits (note 9)	422,915	383,779
Administrative expenditures (note 10)	30,485	26,406
	<u>791,704</u>	<u>410,185</u>
<i>Increase in Net Assets</i>	<u>913,519</u>	<u>1,951,505</u>
Net assets at beginning of year	13,091,336	11,139,831
<i>Net Assets at End of Year</i>	<u>\$14,004,855</u>	<u>\$13,091,336</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1992

General

The Ontario Municipal Employees Retirement System (OMERS) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the Ontario Municipal Employees Retirement System Act (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the Ontario Pension Benefits Act, Registration #C006725.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual contributory earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The Ontario Pension Benefits Act (PBA) requires that participating employers must fund the benefits determined under the Plan. In accordance with the PBA the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability waivers and benefits, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the OMERS Act and Regulation or by contacting OMERS.

Summary of Significant Accounting Policies

Consolidation ➤ Certain of the Fund's private debt, real estate, mortgage and resource investments are held by wholly owned subsidiaries. The consolidated financial statements include the accounts of the Fund and all subsidiaries.

Investments ➤ Investments are stated at market value and are recorded as of the trade date. Securities are valued at year-end quoted market prices where available. Where quoted market values are not available, estimated values are calculated by discounting cash flows based on market yields, using annual independent real estate appraisals, or comparative securities.

Gains and losses on disposal of investments are credited or charged to investment income. Investment income is recorded on the accrual basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1992 (Continued)

(000's)

1. Responsibilities of the Actuary and External Auditors

The actuary is appointed by the Board of OMERS. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates, and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are appointed by the Board. Their responsibility is to report to the Board regarding the fairness of presentation of OMERS' financial position, results of operations and changes in financial position as shown in the annual financial statements. The external auditors make use of the work of the actuary for the actuarial liabilities as disclosed in the notes to the financial statements in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

2. Investments

	1992		1991	
	Market Value	Cost	Market Value	Cost
Cash and short term deposits	\$ 856,673	\$ 856,673	\$ 693,261	\$ 693,261
Canadian bonds and debentures	2,771,590	2,737,692	2,711,265	2,638,470
Private debt	277,614	293,045	296,609	283,015
Mortgages	1,776,528	1,673,302	1,977,091	1,859,699
Canadian equities	5,716,410	5,649,643	5,743,317	5,391,129
Non-Canadian equities	2,629,569	2,213,742	1,819,797	1,496,750
Real estate	1,634,221	1,754,641	1,348,018	1,377,810
Real estate debentures	11,475	11,475	20,400	20,400
Resource properties	38,015	42,944	57,967	56,441
Private equities	121,258	135,967	124,435	128,551
	\$15,833,353	\$15,369,124	\$14,792,160	\$13,945,526

Canadian bonds and debentures include Province of Ontario debentures having a cost of \$1,293,025 (1991 - \$1,293,025), bearing a weighted average interest rate of 9.07%, and maturing at various dates beginning on December 31, 1993 through December 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1992 (Continued)

(000's)

At December 31, 1992, the Fund held individual investments whose market or cost value exceeded 1% of the market or cost value of total investments:

	Number of Investments	1992 Aggregate	
		Market Value	Cost
Canadian equities	9	\$1,791,142	\$1,415,526
Canadian bonds and debentures	5	1,008,046	986,168
Real estate	3	611,191	614,281
		\$3,410,379	\$3,015,975

Real estate investments above include ownership interests in the following properties all of which are located in Toronto, Ontario: BCE Place (Canada Trust Tower); Water Park Place; and One Financial Place.

3. Long Term Receivables

Under the terms of the OMERS Act and Regulation certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long term receivables to be paid, with interest, over a period not to exceed fifteen years.

4. Due to Administered Pension Plans

The administered pension plans, which form part of the Fund, are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnical Institute, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

5. Provision for Supplementary Retirement Benefits

In 1992 and previous years certain participating employers entered into agreements with the Board for provision of benefits supplementary to the OMERS basic plan benefits. The total of funding contributions plus accumulated income is reported as a plan liability.

Effective January 1, 1992, certain supplementary retirement benefits have become part of the basic plan benefits provided to all members and therefore are not subject to additional contributions. OMERS is presently reviewing the disposition of this liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1992 (Continued)

(000's)

6. Net Assets

The actuarial valuation was conducted as of December 31, 1991 and has been extrapolated to December 31, 1992. The projected unit credit method, prorated on services, and certain funding assumptions were used in the valuation and the extrapolation.

Investments are valued at market value as at December 31, 1992 for financial statement purposes, as disclosed in note 2. The actuarial value of net assets has been determined using an actuarial formula based on market values over the last five year period. The objective of this process is to smooth out the effects of market volatility by averaging market values while reflecting long term historical investment trends. In previous valuations the actuarial value of net assets was determined using net assets at cost, adjusted for certain unrealized gains. The impact of the change is an increase in actuarial assets of \$469,000 (1991- \$215,000).

The actuarial present value of accrued pension benefits includes benefits for active members, pensioners and deferred vested pensioners.

The extrapolation of the actuarial valuation to December 31, 1992 has taken into account amendments made to the plan up to December 31, 1992. The 1991 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1991.

	1992	1991
Market value of net assets at end of year	\$14,004,855	\$13,091,336
Add market value adjustment for actuarial purposes	595,145	3,664
Actuarial value of net assets at end of year	<u>14,600,000</u>	<u>13,095,000</u>
Actuarial present value of accrued pension		
benefits at beginning of year	\$13,024,000	\$10,949,000
Amendments to the plan	0	3,115,000
Ad hoc increases to pension benefits	15,000	188,000
Change in actuarial assumptions	0	(2,457,000)
Interest accrued on benefits	1,127,000	750,000
Benefits accrued	849,000	736,000
Benefits paid	(373,000)	(328,000)
Experience (gains) losses	(57,000)	71,000
Actuarial present value of accrued pension		
benefits at end of year	<u>\$14,585,000</u>	<u>\$13,024,000</u>
Excess of actuarial value of net assets over actuarial		
present value of accrued pension benefits	<u>\$ 15,000</u>	<u>\$ 71,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1992 (Continued)

(000's)

7. Contributions

	1992	1991
Members	\$430,169	\$375,728
Employers, current service	430,169	375,728
Employers, long term receivables and interest thereon (note 3)	11,460	18,226
Transfers from other pension plans	11,841	13,116
Other purchased service	5,936	0
Unreduced early retirement benefits (note 5)	281	754
	<u>\$889,856</u>	<u>\$783,552</u>

8. Investment Income

	1992	1991
Short term deposits	\$ 41,221	\$ 63,877
Canadian bonds and debentures	241,566	231,497
Private debt	24,079	29,753
Mortgages	194,411	211,444
Canadian equities	187,603	192,343
Non-Canadian equities	59,733	37,566
Real estate	107,281	66,596
Real estate debentures	1,909	4,431
Resource properties	1,533	4,322
Private equities	2,914	12,060
	<u>862,250</u>	<u>853,889</u>
Realized capital gains	67,764	20,136
	<u>930,014</u>	<u>874,025</u>
Less income credited to:		
Administered pension plans	(106,368)	(101,455)
Provision for supplementary retirement benefits	(8,279)	(9,160)
	<u>\$ 815,367</u>	<u>\$ 763,410</u>

9. Benefits

	1992	1991
Members' pensions	\$ 372,576	\$327,866
Members' contributions plus interest refunded	37,455	42,710
Transfers to other pension plans	12,884	13,203
	<u>\$ 422,915</u>	<u>\$383,779</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1992 (Continued)

(000's)

10. Administrative Expenses

	1992	1991
Personnel services	\$17,410	\$15,667
Transportation & communication	1,235	940
Actuarial services	620	760
Audit services	312	256
Legal services	376	317
Other professional services	408	554
Occupancy costs and municipal taxes	3,806	3,783
Systems development purchased services	1,500	948
Other purchased services	3,387	2,499
Equipment and depreciation	1,798	1,794
Materials & supplies	1,288	859
	32,140	28,377
Less: Management fees from administered pension plans	(1,655)	(1,971)
	\$30,485	\$26,406

OFFICERS AND DIRECTORS (1993)

Directors

Mr J.V. Sherlock, *Chair*
Trustee, Halton Roman Catholic
Separate School Board

Ms A. Dubas, *1st Vice Chair*
Public Health Nurse, City of Toronto

Mr G.R. Mugford, *2nd Vice Chair*
Firefighter, City of Toronto

Mr T.D. Allan, *Past Chair*
Police Officer,
Durham Regional Police Force

Mr T.A. Arkeveld
Superintendent of Business and
Treasurer, Leeds and Grenville County
Board of Education

Ms N.J. Bardecki
Director, Municipal Finance Branch,
Ministry of Municipal Affairs

Mr F. Bullen
Alderman, City of Orillia

Ms J. Fulkerson
Director of Human Resources,
Thunder Bay Hydro

Mr W. Hassan
Manager, Utility Practices,
Municipal Electric Association

Mr G.W. Lawson
Commissioner of Finance and
Treasurer, Regional Municipality of
Hamilton-Wentworth

Ms S. O'Gorman
Public Health Nurse,
York Regional Public Health Dept.

Ms S. Peebles
Social Worker,
Algoma District Social Services

Mr D. Ross
Pensioner

Investment Committee

Mr G.W. Lawson, *Chair*

Mr G.R. Mugford, *Vice Chair*

Management Committee

Mr W. Hassan, *Chair*

Mr D. Ross, *Vice Chair*

Pension Committee

Ms S. Peebles, *Chair*

Ms J. Fulkerson, *Vice Chair*

Senior Officers

Mr A.W. Reeve
President and C.E.O.

Mr M.E. Beswick
Senior Vice President, Pension Division

Mr R.W. Gladstone
Senior Vice President, Administration Division

Mr R.L. Sillcox
Senior Vice President, Investment Division

Ms M.J. Williams
Senior Vice President, Human Resources Branch

Advisors to the Board

The Wyatt Company, *Actuary*

Peat Marwick Thorne, *Auditors*

Osler, Hoskin & Harcourt, *Legal Advisor*

Dr D. Lewis, *Medical Advisor*



One University Avenue, Suite 1000, Toronto, Ontario M5J 2P1
(416) 369-2400, 1-800-387-0813

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ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The Board was pleased to be able to respond quickly to the rapidly changing needs of plan members and employers in 1993.

The strength of the OMERS plan lies in its commitment to securing the pension promise for plan members.





The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 by the Ontario Government as a multi-employer pension plan for employees of local governments in Ontario. OMERS also manages the pension plans of Ryerson Polytechnic University and the Colleges of Applied Arts and Technology.

A contributory defined benefit pension plan, OMERS is financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund. Some 1,120 municipalities, local boards and school boards participate in the OMERS plan, which is governed by a Board appointed by the Ontario Government. Nine members of the Board are employees of participating employers, two members are elected or appointed officials of municipalities or local boards, one member is an OMERS pensioner, and one member is a Provincial official.

As our mission states, OMERS:

- ✿ provides appropriate and secure pension benefits for plan members while keeping member and employer contribution rates reasonable and stable,
- ✿ prudently invests the funds for long term growth at acceptable risk levels to meet plan liabilities and the needs of members and retirees,
- ✿ is operated by and for municipal employees, retirees and employers in a highly effective manner,
- ✿ distributes timely and useful pension information to plan members, retirees and participating employers, and
- ✿ promotes the interests of plan members, retirees and employers to the Province and various pension regulatory agencies.

Working together for your retirement

Message from the Chair

The recession of the past several years has been very hard on municipalities and local boards in Ontario. Declining revenues, greater demand for social services and a public hostile to further tax increases have forced local governments to downsize in an effort to reduce costs. In 1992 the OMERS Board began monitoring the effects of this trend on the plan. Early in 1993 the Board designed a programme of employer-paid enhanced early retirement benefits that would assist retiring members while helping employers reach reduction targets without adversely affecting the plan as a whole.

In June the Ontario Government, in an effort to further reduce public service costs across the Province, introduced the "Social Contract." The Board and its actuary studied the probable effect on the plan of reduced or frozen wages among members and concluded that the actuarial surplus would increase over time as a result of the Social Contract. In addition, 1993 Fund returns were well ahead of actuarial projections. The Board made use of a portion of the projected actuarial surplus to develop several provisions, in effect for the duration of the Social Contract period, that will help employers and members in meeting this new challenge.

The Board was pleased to be able to respond quickly to the rapidly changing needs of plan members and employers. The strength of the OMERS plan lies in its commitment to providing secure and appropriate pension benefits, at reasonable contribution rates, for the employees of Ontario's local governments.


In 1993 we welcomed David Griffin of the Peel Regional Police Association and Roger Richard, Superintendent of Business and Treasurer of The Lennox and Addington County Board of Education, to the Board. We thank departing Board members and past Chairs Andreas Arkeveld and Dale Allan for their years of service to OMERS, and wish them well in their future endeavours.

Allan Reeve, President and C.E.O. of OMERS since 1974, retired in June of 1993. Mr Reeve had served OMERS in a variety of capacities from its inception in 1963, overseeing tremendous growth and development in an ever-changing pension environment. The Board extends best wishes to Mr Reeve for a happy and fulfilling retirement.

Our new President and C.E.O., Dale E. Richmond, joined OMERS in August 1993. Mr Richmond comes to us from the Municipality of Metropolitan Toronto where, as Chief Administrative Officer since 1985, he was responsible for the overall administrative efficiency and effectiveness of the Metropolitan Corporation. His public service career has included positions as the Commissioner of the Department

of Management Services, Deputy Commissioner of Roads and Traffic, and Director of Economic and Policy Research for the Chief Administrative Officer's Department for Metro, as well as work with the Regional Municipality of Sudbury, the City of Calgary and the Province of Nova Scotia.

The Board welcomes Mr Richmond to OMERS. We look forward to working closely with him as we face new challenges in the coming years.

A handwritten signature in dark ink, reading "Anne Dubas". The signature is fluid and cursive, with the first name "Anne" and last name "Dubas" clearly distinguishable.

Anne Dubas

Chair

Message from the President

In 1993, for the first time in its history, OMERS had two presidents as Allan Reeve retired and I took over as President and C.E.O.

This was a turbulent year in which to plunge into the work of the pension plan. As the Board moved swiftly to meet the challenges of downsizing followed by the Social Contract, I gained great insight into the complexities of our operations and the meaning of our mission and values.

The investment discipline OMERS pursues was handsomely rewarded in 1993. Stimulative monetary policies, moderate inflation and improving corporate earnings in an environment of slow but solid economic growth brought about an exciting period of substantial gains in the financial markets. With investment returns and net pension contributions the investments of the consolidated OMERS Fund grew by 26.9% in 1993, reaching \$20.1 billion. The Fund is structured to provide the returns required to meet the plan's long term liabilities, and its disciplined approach provides steady long term growth.

The reshaping of our information systems to meet the demands of the future is an ongoing project. The major current item, the redevelopment of the membership system, will take several years to complete. Every aspect of plan management, from investment tracking to serving our members, employers and pensioners, is affected by our ability to handle information; it is critical that we maintain the highest ability in this area.

I have been pleasantly impressed by the working environment at OMERS. Our function is to ensure delivery of the promised pension for plan members while keeping member and employer contribution rates reasonable and stable. All the OMERS staff demonstrate a strong commitment to this mission and a real awareness of the OMERS corporate values: to "provide high quality service to all our clients," and to "treat each other with respect, fairness, trust, and dignity."

Assuming the mantle of leadership of OMERS is a challenging and exciting experience. I look forward to meeting the challenge, with the help of our skilled and highly professional staff and our dedicated Board.



Dale E. Richmond
President and C.E.O.

Five Year Review of Plan Data

	1993	1992	1991	1990	1989
Employers					
Municipalities	538	538	536	541	532
School boards	134	135	131	134	134
Other local boards	448	448	447	445	442
	1,120	1,121	1,114	1,120	1,108
Contributing Members					
by employer					
Municipalities	95,462	94,334	92,870	89,645	85,228
School boards	53,076	53,079	52,107	49,570	46,768
Other local boards	41,638	42,289	42,361	41,323	39,002
Inactive groups	21	89	129		
	190,197	189,791	187,467	180,538	170,998
by sex					
Female	91,001	89,612	86,903	81,940	76,135
Male	99,196	100,179	100,564	98,598	94,863
	190,197	189,791	187,467	180,538	170,998
by normal retirement age					
Age 65	167,082	166,571	164,306	157,831	151,650
Age 60	23,115	23,220	23,161	22,707	19,348
	190,197	189,791	187,467	180,538	170,998
Terminated members who have elected a deferred pension					
	7,947	7,769	7,444	7,107	6,300
Number of pensioners by type of pension					
Normal retirement	22,538	21,967	21,297	20,577	19,739
Early retirement	16,165	14,511	12,994	11,760	10,383
Disability pension	2,743	2,654	2,546	2,447	2,257
Spouses and children	11,987	11,278	10,494	9,886	9,308
	53,433	50,410	47,331	44,670	41,687
Total membership comprising					
Active members, inactive members and pensioners	251,577	247,970	242,242	232,315	218,985
Number of members enrolled	8,112	10,933	16,532	22,673	22,306
Number of members terminated	7,706	8,609	9,603	13,133	12,161
Net increase in membership	406	2,324	6,929	9,540	10,145

RESPONDING TO CHANGE

Financial pressures on local governments have increased steadily over the past two years as burgeoning costs and shrinking revenues have accompanied a deepening recession. Beginning in March 1992, the OMERS Board looked at the effect of “downsizing” – reductions in the labour force – on the plan, and developed ways in which OMERS could assist employers and members.

In April 1993, the Board received Government approval for its employer-paid early retirement “window” benefit package, the Type 7 Supplementary Downsizing Agreement. The benefits were designed to permit employers who were downsizing to offer enhanced early retirement pension options to eligible members for a period of up to two years.

Social Contract

The “Social Contract,” a legislated payroll reduction measure for the broader public service, was introduced by the Ontario Government in April 1993. The Board, in its response to this new challenge, was unanimous in its desire to help preserve the jobs of plan members.

With the assistance of the plan’s actuary, the Board studied the impact of reduced or frozen wages over the three year Social Contract period, as well as the effect of downsizing. The results of the

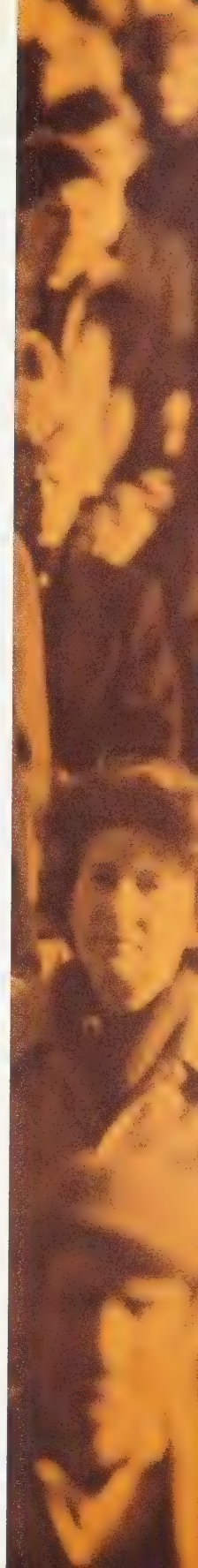
study indicated that the Board could develop provisions to help members and employers during the Social Contract period.

The Board therefore allocated \$200 million to pay for supplementary downsizing retirement benefits where employers intend to use downsizing savings to help meet their Social Contract obligations. The benefits were also expanded to include enhanced early retirement benefits applicable to members with a normal retirement age of 60.

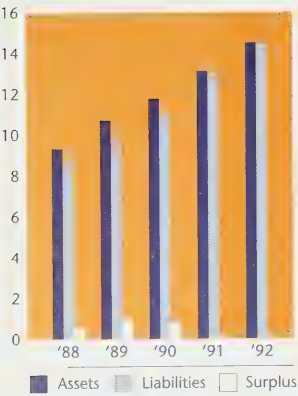
The Type 7 Supplementary Downsizing Agreement allows older workers to retire with security and dignity, thereby reducing the need to lay off younger members. This flexible package directs resources where members and employers most need them.

The OMERS Regulation was also amended to allow the plan to cover member and employer contributions for up to 12 Social Contract unpaid leave days or an equivalent 5% wage reduction per Social Contract year, at a projected cost of about \$150 million.

Other Regulation amendments, effective June 14, 1993 to the end of the Social Contract period, will allow employers to share the member cost of purchasing approved leave periods, including temporary layoffs, and will permit “phased-in” retirement.



Actuarial Assets vs Minimum Liabilities
(\$ Billions)



THE ACTUARIAL VALUATION

The OMERS actuarial valuation at December 31, 1992, conducted by The Wyatt Company, indicates a surplus of \$10 million. This valuation does not include the effect of Social Contract conditions or the initiatives the OMERS Board undertook in response to the Social Contract in 1993.

Actuarial Valuation Results

as at December 31	1992	1991
Actuarial Assets	\$14,600	\$13,095
Actuarial Liabilities	14,590	13,024
Actuarial Surplus	10	71

Reduced or frozen wages under the Social Contract, coupled with low inflation and robust investment returns over the next few years should provide sufficient funding for the Board's Social Contract initiatives.

PENSION INCREASE

Pensioners whose pensions began on or before December 1, 1992 received an indexed increase of 1.33% on January 1, 1994, equal to 70% of the increase in the Consumer Price Index for the year September 1992 to September 1993. They also received an ad hoc increase of 0.57%, bringing the full pension increase to 100% of the inflation rate.

Ad hoc increases have historically been recommended by the Board and approved by the Ontario Government. The Government made a commitment in 1993 to change the OMERS Act, when the Act is next amended, to allow the Board to implement ad hoc increases, plan surplus permitting, without seeking Government approval.

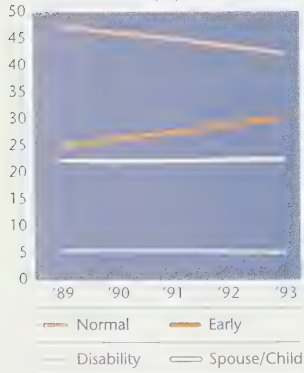
COST-EFFECTIVENESS

OMERS has been instrumental in developing comparative data on operating costs for pension administration and investment management programmes in the pension industry. Our objective in participating in this project has been to develop measurable standards that will help us study the relationship between operating costs and business activities within OMERS and between OMERS and other pension organizations.

Using an activity-based costing approach, we have compiled direct and indirect operating costs for each core administration and investment programme. This helps us determine appropriate operating cost levels more effectively when there are fluctuations in such variables as the number of members, the volume of activity, or investment market values.

The database also helps us compare our costs to those of similar pension

Pensioners by Type of Pension
(%)



Five Year Review of Financial Data

\$ Millions	1993	1992	1991	1990	1989
Investments*					
Ontario debentures	1,297.8	1,303.7	1,301.3	1,143.3	1,205.4
Marketable securities	18,791.3	14,529.7	13,490.9	11,318.2	11,117.4
	20,089.1	15,833.4	14,792.2	12,461.5	12,322.8
Assets*					
For basic plan benefits	17,778.1	14,004.8	13,091.3	11,139.8	11,163.0
For supplementary benefits	139.3	136.3	128.2	117.0	109.1
For managed plans	2,361.4	1,840.5	1,719.3	1,462.0	1,466.9
	20,278.8	15,981.6	14,938.8	12,718.8	12,739.0
Investment income earned					
Basic plan	1,417.2	815.4	763.4	783.3	916.0
Supplementary benefits	8.4	8.3	9.2	11.3	9.7
Managed plans	186.6	106.3	101.4	106.0	122.6
	1,612.2	930.0	874.0	900.6	1,048.3
Contributions received for					
Basic plan current service	890.0	878.1	764.6	683.3	590.9
Past service	11.6	11.5	18.2	35.5	19.7
Supplementary benefits	0.6	0.3	0.8	1.6	1.5
	902.2	889.9	783.6	720.4	612.1
Payments to members					
Pensions paid	414.3	372.6	327.9	278.5	244.6
Contributions and interest refunded	43.5	37.4	42.7	53.7	51.2
Transfers to other plans	5.6	12.9	13.2	5.3	4.1
	463.4	422.9	383.8	337.5	299.9
Administrative expenditures and recoveries					
Pension programme					
Gross	16.5	16.6	14.0	12.6	10.7
Less fee recoveries	1.9	1.7	2.0	0.8	0.7
Net	14.6	14.9	12.0	11.8	10.0
Investment programme	16.6	15.6	14.4	12.7	9.7
	31.2	30.5	26.4	24.5	19.7
Total fund annual rates of return					
Dollar-weighted return on book value	10.2%	6.4%	6.7%	7.9%	10.4%
Time-weighted gross return on market value	23.7%	3.9%	14.5%	-3.4%	16.4%

*at market value as at December 31

organizations participating in the project. It allows us to adjust for each plan's corporate objectives and administrative environment. We have found, through this comparison, that our core pension and investment programme costs are in line with those of other major pension plans in Canada.

INFORMATION SYSTEMS

Our ability to serve our members, employers and pensioners, to maintain contribution and benefit records and to monitor our investments effectively is dependent on information systems. We are constantly upgrading and improving our systems.

We began redesigning our membership system in 1993. This complex project, which encompasses all the services needed to administer our member and employer records and activities, is expected to take several years to complete. The redeveloped system will help us improve the delivery of service to members and employers.

MANAGED PLANS

OMERS manages, for a fee, the pension plans of Ryerson Polytechnic University and the Ontario Colleges of Applied Arts and Technology (CAAT). The Ryerson Retirement Pension Plan served 1,333 active members and paid \$3 million to

295 pensioners in 1993. The Ryerson plan has \$203 million invested with the OMERS Fund.

By the end of 1993 the CAAT Pension Plan had 17,857 active members and had paid \$34 million in benefits to 3,794 pensioners. The CAAT plan has over \$2.1 billion invested with the OMERS Fund.

CORPORATE GOVERNANCE

OMERS believes that effective corporate governance will result in enhanced returns for the Fund.

In 1993 we published our *Proxy Voting Guidelines*, a booklet expressing our general views on corporate governance for the management and boards of those companies in which the Fund invests. The booklet also outlined specific proxy voting recommendations. We believe that the voting of proxies is a significant aspect of the Board's duty to protect the interests of the beneficiaries of the plan, and we make every effort to ensure that our proxies are being voted in accordance with our published guidelines.

We have also developed a formal approach to the analysis of underperforming companies in the Canadian equity portfolio. In 1993 we applied this approach to two specific cases. We will continue to monitor and measure the effectiveness of this process.

Consolidated Investment Assets

Market value as at December 31 (000's)	1993	1992
Fixed Income Investments		
Cash and short term	\$655,526	\$856,673
Ontario debentures	1,297,821	1,303,672
Marketable bonds	2,748,663	1,467,918
Private debt	208,999	277,614
Mortgages: • Residential - insured	725,063	840,206
• Commercial - uninsured	1,036,568	936,322
Total Fixed Income Investments	\$6,672,640	\$5,682,405
Equity Investments		
Stocks: • Canadian indexed	\$1,441,313	\$1,038,453
• Canadian active	6,355,758	4,677,957
• Foreign indexed	1,591,420	476,297
• Foreign active	1,999,703	2,153,272
Total Stocks	11,388,194	8,345,979
Private equities	181,900	159,273
Total Equity Investments	\$11,570,094	\$8,505,252
Real Estate	\$1,846,368	\$1,645,696
Total Investments	\$20,089,102	\$15,833,353

THE FUND

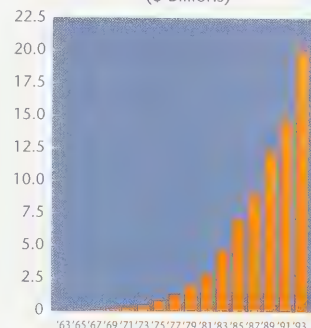
Financial markets, driven by stimulative monetary policies, moderating inflation and improving corporate earnings, had an outstanding year in 1993. Global investors fared very well, although growth lagged in France and Germany, and the Tokyo stock market performed poorly in response to Japan's political and economic problems.

In North America interest rates continued their downward trend, although at a slower pace than in

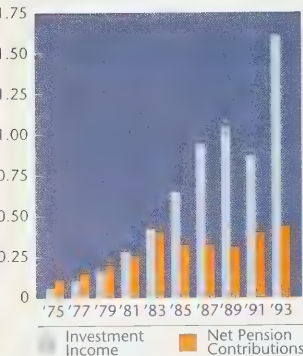
previous years. With interest rates at levels not seen in decades, investors channelled funds into equities despite high valuation levels.

Canadian economic growth was not as strong as in previous recoveries, but 1993 saw a healthier economy helped by increasing US demand for cars and housing. Canada's merchandise trade surplus widened as exports reached record levels. Real Gross Domestic Product (GDP) growth for the year was 2.4%, up from 0.7% in 1992, despite

OMERS Investments
(\$ Billions)



**Net Funds Available
for Investment**
(\$ Billions)



restrained consumer spending. The TSE 300 posted a return of 32.6%, beating the New York, London and Tokyo exchanges. The Canadian dollar rose and fell in response to the political tides of an election year, declining about 4.4% to average US 77.8¢ over the year.

Through investment growth and net pension contributions the investments of the consolidated OMERS Fund reached \$20.1 billion by the end of 1993. The Fund returned 23.7% in the year, before adjustment for investment operating costs of approximately 0.1%.

Fund Performance

The OMERS Fund is structured to provide returns that will meet the plan's long term liabilities. Our asset mix targets of 50 - 60% in equities, 25 - 35% in fixed income, and 10 - 15% in real estate were reviewed and confirmed in 1992. This mix will help ensure that the Fund is appropriately invested to achieve its long term growth objective.

Mechanisms have been put in place to better monitor and adjust the allocation of funds. Strict investment discipline has provided steady long term growth, and will continue to do so.

To monitor the performance of our investments and those responsible for managing them, very specific standards, or benchmarks, have been adopted for

segments of the portfolio. For example, the target performance for our marketable bonds is the ScotiaMcLeod Long Term Bond Index plus 0.25%, for externally managed Canadian equities the target is the TSE 300 plus 1.5%, and we expect returns on our international equities to exceed those of the Salomon Brothers Global Equity (excluding Canada) Index.

Long term target growth for the total Fund is 4.25% above the increase in the Consumer Price Index (the rate of inflation) each year. Actively managing these investments should produce an additional 0.75% return over the long term. The Fund achieved a return of 23.7% in 1993, well above the target return of 6.0%, bringing its four year average annual rate of return to 9.2% compared to the target rate of 7.4%.

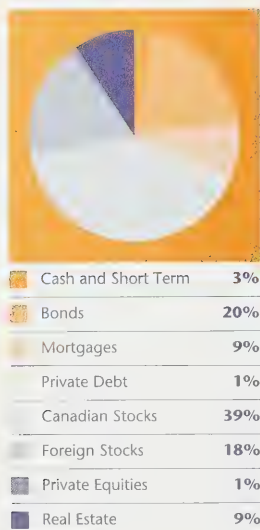
Canadian Equities

Our Canadian equities are held in a variety of portfolios defined by the characteristics of the investments held or by the management style.




































































The Canadian "core" portfolio, which consists of actively managed mid to large capitalization stocks, is the largest at \$5.1 billion. The portfolio had an excellent year in 1993, returning 33.0% compared to a total return of 32.6% for the TSE 300. Its average return over four years was 6.2% compared to 5.7% for the TSE 300.

Asset Mix

as at December 31, 1993



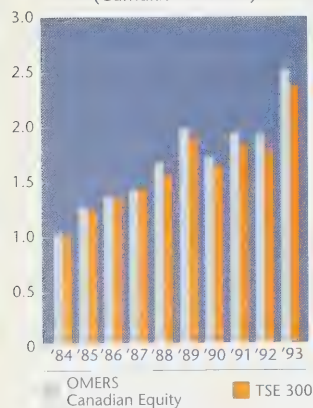
Fund Performance Compared to Indices

	1 year	4 year	10 year
Marketable bonds	21.7% 	16.4% 	14.5% 
ScotiaMcLeod Long Bond Index	22.1% 	15.5% 	15.0% 
Index bonds	22.6% 	—	—
BFGFA Long Government Bond Index	22.1% 	—	—
Ontario debentures	19.5% 	14.7% 	14.5% 
(not applicable)	—	—	—
Mortgages	13.5% 	12.8% 	13.0% 
BFGFA 5-Year Canada Bond Index	14.8% 	13.2% 	—
Private debt	17.8% 	8.0% 	12.0% 
BFGFA 5-Year Canada Bond Index	14.8% 	13.2% 	—
Total Fixed Income	16.7% 	13.6% 	13.5% 
ScotiaMcLeod Universe Bond Index	18.1% 	14.3% 	13.4% 
Core fund	33.0% 	6.2% 	10.0% 
TSE 300 Index	32.6% 	5.7% 	9.0% 
Small capitalization fund	36.7% 	14.2% 	—
Burns Fry Model Small Cap Index (weighted)	48.3% 	9.3% 	—
Private equities	28.5% 	(1.8%) 	4.6% 
TSE 300 Index	32.6% 	5.7% 	9.0% 
Total Canadian Stocks	32.3% 	6.2% 	9.7% 
TSE 300 Index	32.6% 	5.7% 	9.0% 
Foreign stocks	32.5% 	13.2% 	14.8% 
Salomon Brothers Global BMI (excluding Canada)	25.1% 	8.4% 	—
Real estate	2.7% 	(0.1%) 	—
Russell Canadian Office & Retail Property Index (adjusted)	(6.0%) 	(3.2%) 	—
Total OMERS Fund	23.7% 	9.2% 	11.8% 
Consumer Price Index	1.7% 	3.1% 	3.8% 
Consumer Price Index + 4.25%	6.0% 	7.4% 	8.1% 
Investment cost ratio	0.13%	0.15%	0.15%
BFGFA stands for Burns Fry Gifford Fong Associates			

Small capitalization equities, particularly in resources and energy, were exceptional performers again in 1993. The OMERS small capitalization fund, which strives for good performance with

a moderate risk profile, posted a return of 36.7% in 1993, with a four year return of 14.2%. This fund is one of the largest of its kind in Canada, with 1993 price appreciation and cash allocations bringing

OMERS Canadian Equity
(Cumulative Return)



it to more than \$356 million in total assets by year end. Although the exceptionally strong performance of small capitalization stocks as a group is not expected to continue through 1994, OMERS believes in the investment merits of selected small companies in our portfolio.

More of the Canadian equity index fund was internally managed in 1993, leaving about \$475 million under external management. The combined internally and externally managed Canadian equity index fund return for the year was 32.8%, slightly above the total return for the TSE 300.

With a return of 28.5% in 1993, the private equity portfolio's performance showed significant improvement over that of past years. We will continue to focus on sectors of the economy that offer strong growth potential.

performed poorly in 1993 despite deep interest rate cuts, a stimulative fiscal policy and public pension fund buying to support the market. For most of the year OMERS held about half the normal index weight in Japan while overweighting the smaller Pacific Rim markets, notably Hong Kong. This helped the performance of the portfolio.

During the year we converted our internally managed U.S. portfolio from active to passive management to achieve a more consistent investment performance. Our S&P 500 index fund, which returned 14.7%, virtually matched the index, while the U.S. mid-cap fund, with returns of 11.4% for the six months ended December 31, 1993, was 16 basis points ahead of its benchmark.

At year end, our combined foreign equity index fund was valued at \$1.6 billion. Of this, \$1.2 billion was invested in the U.S. and the balance was divided about equally between Europe and Pacific funds, which returned 31.6% and 39.1% respectively.

Fixed Income

Fixed income markets world-wide saw good returns in 1993 as inflation remained under control. New foreign buying of Canadian bonds followed the federal election. Yield spreads between Canadian and U.S. Government bonds

Global Distribution of Total Fund

% of Investments at Market Value as at December 31, 1993



Foreign Equities

Foreign equity holdings had reached \$3.6 billion, or about 17.9% of the total Fund by year end. Both active and passive foreign portfolios are now largely externally managed.

Our actively managed international equity portfolio, excluding the United States, returned 49.7% in 1993, outperforming the Salomon Brothers Europe and Pacific Broad Market Index which returned 35.9%. The Tokyo stock market

narrowed. Short rates declined 315 basis points and long rates dropped 140 basis points, both significant changes.

Our fixed income investments, which include actively and passively managed Canadian marketable bonds, Ontario debentures, mortgages, and private debt (term loans) formed 33.2% of the Fund's assets at year end.

In its first full year after the portfolio was restructured with a long term orientation, our marketable bonds returned 21.7%, compared to 22.1% for the comparable ScotiaMcLeod Long Term Bond Index. The portfolio's four year average return was 16.4%, compared to 15.5% for the index.

Our new Canadian indexed bond fund was well structured, with a total return of 22.6% closely matching the Burns Fry Long Government Index at year end.

The use of bond options and futures within the bond fund has been researched, and these derivatives will be employed in 1994 when an opportunity or a specific need arises.

The conservative approach to mortgage lending OMERS has maintained over the years has rewarded us with a portfolio of high quality mortgages that returned a very satisfactory 13.5% in 1993. The strength of our mortgage portfolio allowed us to exploit advantageous

refinance opportunities and to secure new investments at a significant premium which, combined with declining rates over the year, produced large market value gains in 1993. We will continue our present strategy of pursuing quality commercial opportunities at premium rates as they become available.

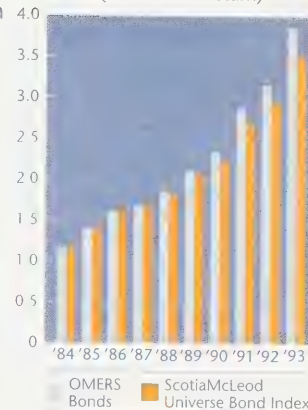
The private debt portfolio returned 17.8% in 1993, handily outperforming its benchmark Burns Fry 5-Year Bond Index. Maturities, redemptions and amortization reduced the size of the portfolio, and new investment activity remained low as few attractive investment opportunities arose.

Real Estate

OMERS Realty Corporation is a wholly owned subsidiary of OMERS, incorporated in 1989 to manage a high-quality, well diversified real estate portfolio. Properties are purchased without debt financing, wholly or in partnership with other institutions or developers, and are professionally managed on our behalf.

The portfolio now holds interests in 35 properties comprising some 9.4 million square feet of prime office and retail space, with an average lease rate of 91.5%. OMERS Realty continued its acquisition programme in 1993, adding a 50% interest in each of Toronto's Yorkdale Shopping Centre, Kelowna's

OMERS Marketable Bonds
(Cumulative Return)



Real Estate
(Market Value by Location)



Orchard Park and Vernon's Village Green regional shopping centres. Holdings in Vancouver's Oceanic Plaza, Marine Building and Guinness Tower were also expanded.

At the end of 1993 the portfolio had a market value of \$1.8 billion, about 9.2% of the OMERS Fund's investment assets. Real Estate returned 2.7% in 1993, compared to 1.5% in 1992 and 0.4% in 1991. The prolonged period of depressed real estate prices has allowed OMERS Realty to build a portfolio of very high quality properties at attractive prices.

Outlook

A dramatic reduction in Canada's inflation and interest rates during the past 10 years has led to high returns in bonds, mortgages and other fixed income instruments, where lower rates contributed to substantial capital gains.

In 1994 we anticipate seeing inflation reach the lowest rate since 1961. With such low inflation and renewed weakness in the Canadian dollar, interest rates are unlikely to go much lower; in fact, we may have already seen the low point in the interest rate cycle.

Without lower interest rates to power fixed income returns, and with a clear,

albeit modest, economic recovery and improved corporate earnings under way, the OMERS asset mix policy, which favours equities over fixed income, is likely to serve us well.

OMERS will continue the process of diversification of the Fund in 1994. The inclusion of growth and small capitalization managers in our externally managed Canadian equity programme will increase the diversification of our management styles and compliment our in-house managers' value-oriented style. We will also take advantage of the increase in the foreign property limit to 20% of the cost of our assets to launch an internally managed foreign bond programme. Equity holdings will be further diversified in emerging markets, including those in Latin America and the Pacific basin.

Finally, plans are under way to use more Canadian and foreign index futures, swaps and other derivative instruments to increase diversification and manage risk. Derivatives offer us a cost-effective way to hedge exposure in an equity or fixed income market and to expand the array of tools available to OMERS in its disciplined management of the Fund's asset mix.

Actuarial Cost Certificate

ONTARIO MUNICIPAL
EMPLOYEES
RETIREMENT
FUND

As at December 31, 1993

For the Ontario Municipal Employees Retirement Board

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1992 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The actuarial valuation of OMERS as at December 31, 1992 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion, the data is sufficient and reliable for the purposes of actuarial valuation.

In our opinion, the assumptions adopted for our actuarial valuation of OMERS are appropriate, and the methods employed are consistent with sound actuarial principles. Nonetheless, the experience of OMERS in the future may be different from the actuarial assumptions, and may result in gains or losses which will be revealed in future actuarial valuations.

The results of the actuarial valuation disclosed total Actuarial Liabilities of \$14,590.202 million in respect of benefits accrued for service prior to December 31, 1992, including the effect of an ad hoc adjustment to pensions as at January 1, 1993. The Actuarial Assets at that date were \$14,599.919 million indicating an actuarial surplus of \$9.717 million.

The results of the actuarial valuation also indicated that the existing levels of member and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1993 taking into account amendments made to the Plan up to December 31, 1993. Further, we have calculated the Actuarial Assets at December 31, 1993.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1993 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted

THE WYATT COMPANY



Martin J.K. Brown, F.I.A., F.C.I.A.

Fellow, Canadian Institute of Actuaries

March 25, 1994



Auditors' Report

To the Ontario Municipal Employees Retirement Board



We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1993 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1993 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Toronto, Canada

March 25, 1994

Consolidated Financial Statements

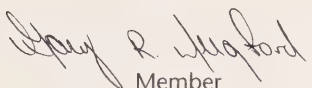
ONTARIO MUNICIPAL
EMPLOYEES
RETIREMENT
FUND

Consolidated Statement of Net Assets

December 31 (000's)	1993	1992
Assets		
Investments (note 2)	\$20,089,102	\$15,833,353
Long term receivables (note 3)	61,847	98,218
Contributions receivable	79,202	82,560
Accrued income	153,023	130,480
	20,383,174	16,144,611
Liabilities		
Due to administered pension plans (note 4)	2,361,410	1,840,466
Accrued liabilities	243,627	299,290
	2,605,037	2,139,756
Net Assets (note 5)	\$17,778,137	\$14,004,855

Signed on behalf of the Board,


Member


Member

Consolidated Statement of Changes in Net Assets

Year Ended December 31 (000's)	1993	1992
Increases in Net Assets		
Contributions (note 6)	\$ 902,188	\$ 889,856
Investment income (note 7)	1,417,172	815,367
Unrealized market appreciation of investments	1,948,439	0
	4,267,799	1,705,223
Decreases in Net Assets		
Unrealized market depreciation of investments	0	338,304
Benefits (note 8)	463,373	422,915
Administrative expenditures (note 9)	31,144	30,485
	494,517	791,704
Increase in Net Assets	3,773,282	913,519
Net assets at beginning of year	14,004,855	13,091,336
Net Assets at End of Year	\$17,778,137	\$14,004,855

Notes to Consolidated Financial Statements

Year ended December 31, 1993

(000's)

GENERAL

The Ontario Municipal Employees Retirement System (OMERS) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the Ontario Municipal Employees Retirement System Act (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the Ontario Pension Benefits Act, Registration #C006725.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual contributory earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The Pension Benefits Act of Ontario (PBA) requires that participating employers must fund the benefits determined under the plan. In accordance with the PBA the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability benefits, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the OMERS Act and Regulation or by contacting OMERS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and OMERS proportionate share of the assets, liabilities, and operating income of real estate properties jointly owned with others.

Investments

Investments are recorded as of the trade date and are stated at market value. The change in the difference between market value and cost of investments at the begin-

Year ended December 31, 1993 (Continued)

(000's)

ning and end of each year is reflected in the statement of changes in net assets as unrealized market appreciation/depreciation of investments.

Market values of investments are determined as follows:

(i) Short term deposits are recorded at cost.

(ii) Bonds, debentures, equities and resource properties are valued at year end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparative securities, independent asset appraisals and financial analysis.

(iii) Real estate, comprising primarily income producing properties, is carried at appraised values determined annually by an independent appraiser in accordance with generally accepted appraisal practices and procedures, based mainly on discounted cash flows for a ten year period. In performing the appraisals, certain assumptions are made with respect to future economic conditions and rates of return. The firm of independent appraisers used is Jones Lang Wootton Canada Inc. (1992 - Drivers Jonas (Canada) Ltd.).

(iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk.

Investment income, which is recorded on the accrual basis, includes dividends, interest income, and real estate operating income as well as capital gains and losses which have been realized on investments.

Foreign Currency Translation

The market values of foreign currency denominated investments included in the statement of net assets are translated into Canadian dollars at the year end rate of exchange. Gains and losses arising from this translation are included in unrealized appreciation/depreciation of investments.

Foreign currency denominated transactions, as well as cost amounts included in Note 2 to the financial statements, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

1. RESPONSIBILITIES OF THE ACTUARY AND EXTERNAL AUDITORS

The actuary is appointed by the Board of OMERS. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the Board. The actuary's

Notes to Consolidated Financial Statements

Year ended December 31, 1993 (Continued)

(000's)

opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are appointed by the Board. Their responsibility is to report to the Board regarding the fairness of presentation of OMERS financial position, results of operations and changes in financial position as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuaries for the actuarial liabilities as disclosed in the notes to the financial statements in respect of which the actuaries have given an opinion. The auditors' report outlines the scope of their examination and their opinion.

2. INVESTMENTS

	1993		1992	
	Market Value	Cost	Market Value	Cost
Cash and short				
term deposits	\$ 655,526	\$ 655,526	\$ 856,673	\$ 856,673
Canadian bonds and				
debentures	4,046,484	3,716,894	2,771,590	2,737,692
Private debt	208,999	220,535	277,614	293,045
Mortgages	1,761,631	1,597,810	1,776,528	1,673,302
Canadian equities	7,797,071	6,224,194	5,716,410	5,649,643
Non-Canadian equities	3,591,123	2,773,032	2,629,569	2,213,742
Real estate	1,846,368	2,054,774	1,645,696	1,766,116
Resource properties	44,666	43,566	38,015	42,944
Private equities	137,234	129,965	121,258	135,967
	\$20,089,102	\$17,416,296	\$15,833,353	\$15,369,124

Canadian bonds and debentures include Province of Ontario debentures having a market value of \$1,297,821 and a cost of \$1,163,525 (market \$1,303,672 and cost \$1,293,025 in 1992), bearing a weighted average interest rate of 9.18% (9.07% in 1992), and maturing at various dates through December 31, 2006 (\$129,500 matured December 31, 1993).

Year ended December 31, 1993 (Continued)

(000's)

At December 31, 1993, the Fund held the following investments each having a market value or cost exceeding 1% of the market value or cost of total investments:

	Number of Investments	1993 Aggregate	
		Market Value	Cost
Canadian equities	6	\$1,488,922	\$1,033,989
Real estate	3	570,080	650,991
		\$2,059,002	\$1,684,980

Real estate investments above include ownership interests in the following properties all of which are located in Toronto, Ontario: BCE Place (Canada Trust Tower), Water Park Place, and One Financial Place.

3. LONG TERM RECEIVABLES

Under the terms of the OMERS Act and Regulation certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long term receivables to be paid, with interest, over a period not to exceed fifteen years.

4. DUE TO MANAGED PENSION PLANS

The managed pension plans which form part of the Fund are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

5. NET ASSETS

The actuarial valuation was conducted as of December 31, 1992 and has been extrapolated to December 31, 1993. The projected unit credit method, prorated on services, and certain funding assumptions were used in the valuation and the extrapolation.

Notes to Consolidated Financial Statements

Year ended December 31, 1993 (Continued)

(000's)

Investments are valued at market value as at December 31, 1993 for financial statement purposes, as disclosed in note 2. The actuarial value of net assets has been determined using an actuarial formula based on market values over the last five year period. The objective of this process is to smooth out the effects of market volatility by averaging market values while reflecting long term historical investment trends.

The actuarial present value of accrued pension benefits includes benefits for active members, pensioners and deferred vested pensioners.

The extrapolation of the actuarial valuation to December 31, 1993 has taken into account amendments made to the plan up to December 31, 1993. The 1992 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1992.

	1993	1992
Market value of net assets at end of year	\$17,778,137	\$14,004,855
Market value adjustment for actuarial purposes	(1,229,137)	595,145
Actuarial value of net assets at end of year	16,549,000	14,600,000
Actuarial present value of accrued pension		
benefits at beginning of year	\$14,590,000	\$13,024,000
Ad hoc increases to pension benefits	27,000	16,000
Interest accrued on benefits	1,258,000	1,126,000
Benefits accrued	993,000	869,000
Benefits paid	(414,000)	(373,000)
Experience gains	(205,000)	(72,000)
Actuarial present value of accrued pension		
benefits at end of year	\$16,249,000	\$14,590,000
Excess of actuarial value of net assets over		
actuarial present value of accrued pension benefits	\$ 300,000	\$ 10,000

6. CONTRIBUTIONS

	1993	1992
Members	\$438,195	\$430,169
Employers, current service	438,195	430,169
Employers, long term receivables and interest thereon (note 3)	11,612	11,460
Transfers from other pension plans	5,188	11,841
Other purchased service	8,415	5,936
Unreduced early retirement benefits	583	281
	\$902,188	\$889,856

Notes to Consolidated Financial Statements

ONTARIO MUNICIPAL
EMPLOYEES
RETIREMENT
FUND

Year ended December 31, 1993 (Continued)

(000's)

7. INVESTMENT INCOME

	1993	1992
Short term deposits	\$ 39,891	\$ 41,221
Canadian bonds and debentures	273,828	241,566
Private debt	28,820	24,079
Mortgages	176,497	194,411
Canadian equities	179,187	187,603
Non-Canadian equities	62,293	59,733
Real estate	125,503	109,190
Resource properties	3,320	1,533
Private equity	3,841	2,914
	893,180	862,250
Realized capital gains	719,032	67,764
	1,612,212	930,014
Less income credited to:		
Managed pension plans	(186,654)	(106,368)
Provision for supplementary retirement benefits	(8,386)	(8,279)
	\$1,417,172	\$ 815,367

8. BENEFITS

	1993	1992
Members' pensions	\$ 414,345	\$372,576
Members' contributions plus interest refunded	43,473	37,455
Transfers to other pension plans	5,555	12,884
	\$ 463,373	\$422,915

Notes to Consolidated Financial Statements

Year ended December 31, 1993 (Continued)

(000's)

9. ADMINISTRATIVE EXPENSES

	1993	1992
Personnel services	\$18,421	\$17,410
Transportation and communication	864	1,235
Actuarial services	497	620
Audit services	350	312
Legal services	413	376
Other professional services	345	408
Occupancy costs and municipal taxes	3,906	3,806
Systems development purchased services	1,361	1,500
Other purchased services	4,308	3,387
Equipment and depreciation	1,658	1,798
Materials and supplies	916	1,288
	\$ 33,039	\$ 32,140
Less: Management fees from managed pension plans	(1,895)	(1,655)
	\$31,144	\$30,485

Senior Officers and Members of the 1994 Board

Members of the Board

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Public Health Nurse, City of Toronto

1st Vice Chair

Gary R. Mugford
Firefighter, City of Toronto

2nd Vice Chair

Joanne Fulkerson
Director of Human Resources,
Thunder Bay Hydro

Past Chair

James V. Sherlock
School Trustee,
Halton Separate School Board

Nancy J. Bardecki
Director, Municipal Finance Branch,
Ministry of Municipal Affairs

Fayne Bullen
Alderman,
City of Orillia

David A. Griffin
Administrator,
Peel Regional Police Association

Wasim Hassan
Director Utility Practices,
Municipal Electric Association

Gerry W. Lawson
Commissioner of Finance and
Treasurer, Regional Municipality of
Hamilton-Wentworth

Susan O'Gorman
Public Health Nurse,
York Regional Public Health Department

Shirley Peebles
Social Worker,
Algoma District Social Services

Roger H. Richard
Superintendent of Business and
Treasurer,
The Lennox & Addington County Board
of Education

Donald W. Ross
Retiree

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Gerry W. Lawson

Vice Chair

Fayne Bullen

Management Committee

Chair

Wasim Hassan

Vice Chair

Donald W. Ross

Pension Committee

Chair

Shirley Peebles

Vice Chair

Susan O'Gorman

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President and C.E.O.

Michael E. Beswick
*Senior Vice President,
Pension Division*

R. Wayne Gladstone
*Senior Vice President,
Administration Division*

Robert L. Sillcox
*Senior Vice President,
Investment Division*

M. Jane Williams
*Senior Vice President,
Human Resources Branch*

Advisors to the Board

Actuary

The Wyatt Company

Auditors

KPMG Peat Marwick Thorne

Legal Advisor

Osler, Hoskin & Harcourt

Medical Advisor

Dr D. Lewis



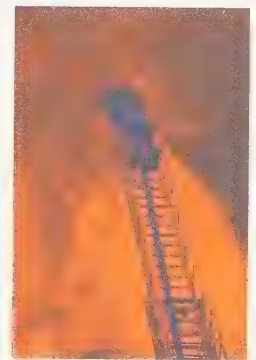
ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD
One University Avenue, Suite 1000, Toronto, Ontario M5J 2P1
(416) 369-2400, 1-800-387-0813

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Publications

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ANNUAL REPORT



The many elements of the Ontario Municipal Employees Retirement System work together to create a whole greater than the sum of its parts, stronger for its diversity.



ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD





The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 by the Ontario Government as a multi-employer pension plan for employees of local governments in Ontario. A total of 1,120 municipalities, boards, school boards and commissions participate in the plan.

Managed by a 13 member Board appointed by the Ontario Government, OMERS is operated by and for municipal employees and employers. Five members of the Board are employees of local governments, one is a pensioner, four are officers of the participating employers, two are elected or appointed officials of municipalities or local boards, and one member is a Provincial official.

OMERS is a defined benefit pension plan financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund

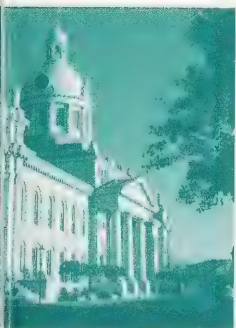
In keeping with our mandate, the OMERS vision is as follows.

- OMERS will be an autonomous, self-funded pension plan managed by and for its active members, pensioners and employers.
- OMERS will provide a choice of pension options for employees engaged in the delivery of local government services.
- OMERS will keep its pension promise through prudent investments and cost-effective management.

WORKING TOGETHER FOR YOUR RETIREMENT

STRENGTH IN DIVERSITY

The strength of OMERS lies in its diversity, in the great variety of interests among the members, employers and pensioners who participate in the System. Our members are drawn from all the regions of Ontario. They not only fill many different jobs in Ontario's local governments, they also reflect the mosaic of Canadian society. Our participating employers are a diverse group representing all aspects of local government in Ontario. Our pensioners live all over the world.



Our investment programme is also strengthened by its diversification, which helps to balance the risk associated with specific investments and to assure less volatility in the Fund's performance. Although North American markets fared poorly in 1994, our diversification into European and Pacific rim markets helped the Fund to achieve a positive total return of 1.8%.

Fiscal restraint and the "Social Contract" were prominent in 1994. In many parts of Ontario, local governments were faced with the necessity of cutting staff. In 1993 the OMERS Board designed a programme to meet the diverse needs of our constituents and allocated \$200 million of plan surplus to fund supplementary enhanced early retirement benefits during the Social Contract period. This programme has been a great success; by the end of 1994, over 2,700

plan members had elected early retirement under this special downsizing supplementary benefit programme, helping to preserve more jobs for younger OMERS plan members, an important objective of the Board.

Since 1967 OMERS has, under agreement, managed the assets and administration of the Colleges of Applied Arts and Technology (CAAT) Pension Plan. A new pension board for the CAAT plan was established in 1994 and, under a new management agreement with OMERS, approximately \$2.2 billion in assets now commingled with the OMERS Fund will be transferred to the new board by January 1, 1996. The transfer will be carefully planned and orderly, and will ensure that there are no disruptions to the OMERS and CAAT Funds.

The Federal Government's 1994 budget consultations opened a debate over the possibility of new taxes being imposed on pension plans. OMERS strongly believes that taxing pension savings would be harmful both to OMERS members and to the financial health of Canada, and worked to prevent such a tax. In fact, the budget presented on February 27, 1995 did not include any new taxes for registered pension plans this year. OMERS will continue to monitor future tax discussions.



During the year the Board began reviewing how OMERS is governed and whether changes are needed in its formal relationship with the Ontario Government. The review



will involve extensive consultation with OMERS participants, a process the Board looks forward to completing in 1995.

Toward the end of 1994 the OMERS Board re-examined its purpose and values in light of the changing environment of local government in Ontario. The evaluation resulted in a strong reaffirmation of our reason for being – "working together for your retirement." The Board also clarified and restated its mission and developed a vision for OMERS, a clear statement of where we are headed in the future. Our newly articulated vision recognizes the increasingly diverse characteristics and needs of OMERS participants and the need for greater flexibility in the future. Our reason for being and our vision statement are printed on the inside front cover of this report.



Gary R. Mugford
Gary R. Mugford,
CHAIR

Dale E. Richmond
Dale E. Richmond,
PRESIDENT AND C.E.O.

FIVE YEAR REVIEW OF FINANCIAL DATA

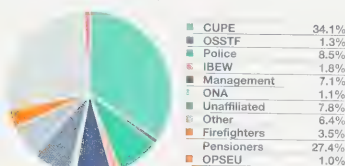
\$ Millions	1994	1993	1992	1991	1990
*INVESTMENTS AT MARKET					
ONTARIO DEBENTURES	995.5	1,297.8	1,303.7	1,301.3	1,143.3
MARKETABLE SECURITIES	19,650.3	18,791.3	14,529.7	13,490.9	11,318.2
	20,645.8	20,089.1	15,833.4	14,792.2	12,461.5
*ASSETS AT MARKET VALUE FOR					
BASIC PLAN	18,388.8	17,778.1	14,004.8	13,091.3	11,139.8
SUPPLEMENTARY BENEFITS AGREEMENTS	133.9	139.3	136.3	128.2	117.0
ADMINISTERED PENSION FUNDS	2,463.3	2,361.4	1,840.5	1,719.3	1,462.0
	20,986.0	20,278.8	15,981.6	14,938.8	12,718.8
INVESTMENT INCOME EARNED					
BASIC PLAN	1,483.8	1,419.1	815.4	763.4	783.3
SUPPLEMENTARY BENEFITS AGREEMENTS	12.7	8.4	8.3	9.2	11.3
ADMINISTERED PENSION FUNDS	198.3	186.6	106.3	101.4	106.0
	1,694.8	1,614.1	930.0	874.0	900.6
CONTRIBUTIONS RECEIVED FOR					
BASIC PLAN	870.0	890.0	878.1	764.6	683.3
BASIC PLAN UNFUNDED LIABILITIES	9.3	11.6	11.5	18.2	35.5
SUPPLEMENTARY BENEFITS AGREEMENTS	0.1	0.6	0.3	0.8	1.6
	879.4	902.2	889.9	783.6	720.4
PAYMENTS TO MEMBERS					
PENSIONS PAID	490.7	414.3	372.6	327.9	278.5
CONTRIBUTIONS AND INTEREST REFUNDED	50.7	43.5	37.4	42.7	53.7
TRANSFERS TO OTHER PLANS	4.7	5.6	12.9	13.2	5.3
	546.1	463.4	422.9	383.8	337.5
ADMINISTRATIVE EXPENDITURES					
PENSION PROGRAMME	17.5	16.5	16.6	14.0	12.6
INVESTMENT PROGRAMME	17.7	16.6	15.6	14.4	12.7
	35.2	33.1	32.2	28.4	25.3
TOTAL FUND ANNUAL RATES OF RETURN					
DOLLAR-WEIGHTED RETURN					
ON BOOK VALUE	9.5%	10.2%	6.4%	6.7%	7.9%
TIME-WEIGHTED RETURN					
ON MARKET VALUE	1.8%	23.7%	3.9%	14.5%	-3.4%

*MARKET VALUE AS AT DECEMBER 31

1994 SUMMARY

Diversity in OMERS

Member Affiliations
(as per 1994 survey results)

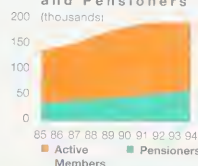


The many elements of the OMERS system work together to create a whole greater than the sum of its parts. The OMERS plan covers people working for local governments and boards in a variety of occupations all over Ontario. Many OMERS members belong to one of a surprising number of different unions and associations.

Social Contract

The Board's Type 7 Supplementary Downsizing Benefits package, introduced in 1993 in response to the Ontario Government's downsizing and Social Contract programmes, has been very successful. By the end of 1994 over 2,700 members had retired under a Type 7 Agreement, funded by \$106 million of the plan surplus allocated by the Board. Membership in OMERS actually declined in 1994, although by less than 1%, for the first time since the plan's inception.

Active Members and Pensioners
(thousands)



Actuarial Valuation

Actuarial Valuation Results
as at December 31 (Millions)

	1993	1992
ASSETS	\$16,548	\$14,600
LIABILITIES	15,675	14,590
SURPLUS	\$873	\$10

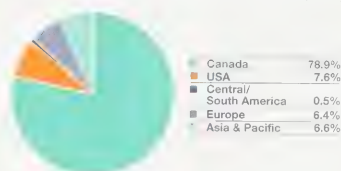
The actuarial results at December 31, 1993 show an actuarial surplus of \$873 million, \$784 million of which comprises the Funding Stabilization Reserve.

Although this valuation includes the initial impact of the Social Contract, Social Contract conditions may continue to affect our actuarial valuations for the next few years.

Fund Diversification

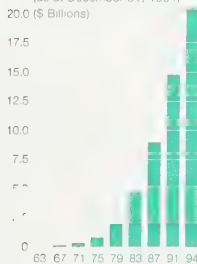
The inclusion of returns from our foreign investments raised the Fund's return by 120 basis points, or about a quarter of a billion dollars, a significant contribution to our total return. Rising U.S. interest rates affected Canadian and international capital markets, but the impact was greatest in North America, where bond markets saw their worst performance in recent memory. Diversification helped the Fund achieve a positive return in 1994.

Global Distribution of Total Fund
(% of Investments at Market Value as at December 31, 1994)



Fund Returns

Total Investments
(as at December 31, 1994)



The investments of the consolidated OMERS Fund reached \$20.6 billion by the end of 1994. The Fund achieved a total return of +1.8%, one of the top returns for large pension funds in Canada. After the spectacular markets of 1993 and early indications of vibrant economic growth, investors anticipated healthy returns in 1994. They were disappointed, however, as continued government borrowing to finance mounting provincial and federal debt contributed to bearish Canadian capital markets, and as the U.S. Federal Reserve raised interest rates to fight perceived inflation. OMERS will maintain its disciplined approach to investing both domestically and internationally.

FIVE YEAR REVIEW OF PLAN DATA

	1994	1993	1992	1991	1990
EMPLOYERS					
MUNICIPALITIES	529	538	538	536	541
SCHOOL BOARDS	134	134	135	131	134
OTHER LOCAL BOARDS	457	448	448	447	445
	1,120	1,120	1,121	1,114	1,120
CONTRIBUTING MEMBERS					
BY EMPLOYER					
MUNICIPALITIES	94,964	95,462	94,334	92,870	89,645
SCHOOL BOARDS	52,637	53,076	53,079	52,107	49,570
OTHER LOCAL BOARDS	41,397	41,638	42,289	42,361	41,323
INACTIVE GROUPS	35	21	89	129	
	189,033	190,197	189,791	187,467	180,538
BY SEX					
FEMALE	91,618	91,001	89,612	86,903	81,940
MALE	97,415	99,196	100,179	100,564	98,598
	189,033	190,197	189,791	187,467	180,538
BY NORMAL RETIREMENT AGE					
AGE 65	165,989	167,082	166,571	164,306	157,831
AGE 60	23,044	23,115	23,220	23,161	22,707
	189,033	190,197	189,791	187,467	180,538
TERMINATED MEMBERS WHO HAVE					
ELECTED A DEFERRED PENSION	8,163	7,947	7,769	7,444	7,107
NUMBER OF PENSIONERS BY TYPE OF PENSION					
NORMAL RETIREMENT	22,914	22,538	21,967	21,297	20,577
EARLY RETIREMENT	20,072	16,165	14,511	12,994	11,760
DISABILITY PENSION	2,814	2,743	2,654	2,546	2,447
SPOUSES AND CHILDREN	12,628	11,987	11,278	10,494	9,886
	58,428	53,433	50,410	47,331	44,670
TOTAL MEMBERSHIP COMPRISING					
ACTIVE MEMBERS, INACTIVE MEMBERS AND PENSIONERS					
	255,624	251,577	247,970	242,242	232,315
NUMBER OF MEMBERS ENROLLED PER YEAR	8,440	8,112	10,933	16,532	22,673
NUMBER OF NEW RETIREMENTS PER YEAR	5,804	3,688	3,576	3,250	3,534
NUMBER OF OTHER TERMINATIONS PER YEAR	3,800	4,018	5,033	6,353	9,599
NET INCREASE (DECREASE) IN MEMBERSHIP	(1,164)	406	2,324	6,929	9,540

1994 IN REVIEW

DIVERSITY IN OMERS

The many elements of the Ontario Municipal Employees Retirement System work together to create a whole greater than the sum of its parts, stronger for its diversity. The OMERS plan covers people working for local governments and boards all over Ontario. From arena managers to school secretaries, community health professionals to firefighters, sanitary engineers to stationary engineers, mayors to police officers, OMERS members serve their communities in a wide variety of important occupations.

The communities our members and their employers serve – cities, towns and villages, regions, counties and development areas, and their boards, councils, commissions and school boards – are located all over the province. We have active members from Moosonee in the north to Pelee Island in the south, and from Kenora in the west to Hawkesbury in the east. OMERS pensioners are even more widely scattered; we issue pension payments to people all over the world.

OMERS members belong to a surprising number of different unions and associations. Many are represented by the Canadian Union of Public Employees, but other members belong to such diverse groups as the Teamsters, the Ontario Nurses Association, the United Brotherhood of Carpenters and Joiners and the Public Library Staff Association, to name but four

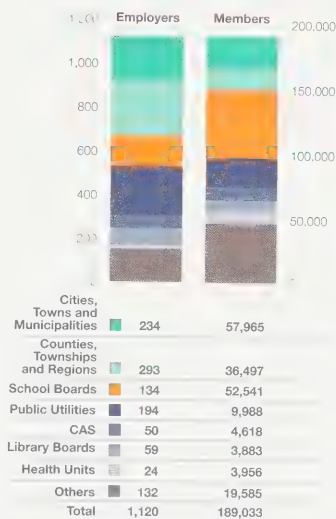
of the 48 unions and associations we know of. About 7.8% of OMERS members are unaffiliated staff, and a further 7.1% of OMERS members are classed as management.

Diversity is also a key strategy of our investment programme. Diversifying investments helps to minimize risk and to smooth out the volatility of individual investments. For example, during 1994, although Canadian market returns were very low, the OMERS Fund achieved a return of +1.8%, one of the top returns for large pension funds in Canada. Diversity helped to achieve this; where Canadian equities performed poorly, foreign equities performed reasonably well in Canadian dollar terms, and while Canadian bonds declined in value, real estate showed positive returns.

The OMERS Board also both reflects and derives its strength from the diversity among OMERS constituents. Board members represent plan members and employers from all over Ontario, but while individual Board members may bring different views and perspectives, when they meet as the Board their prime consideration is the good of OMERS, the broadest interest of the active members, pensioners and employers who make up the System.

Membership by Employer Type

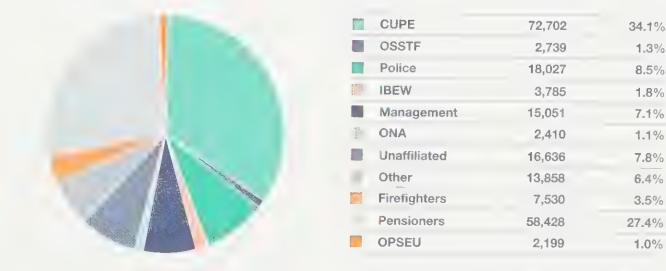
(as at December 31, 1994)



The largest pensioner association to which our members belong is the Municipal Retirees' Organization of Ontario (MROO), and there are many other occupation or employer-specific pensioner groups as well.

Member Affiliations

(as per 1994 survey response)

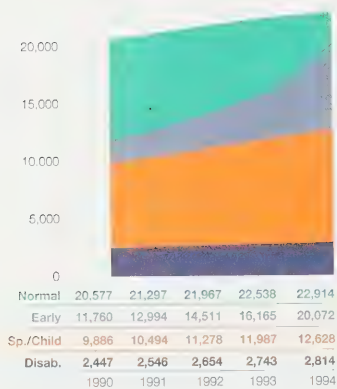


SOCIAL CONTRACT

In the spring of 1993 the OMERS Board introduced a new supplementary benefit programme, designed to allow employers who were downsizing to offer members enhanced early retirement benefit options. For the duration of the Social Contract period, the Board then allocated \$200 million of plan surplus to fund the programme.

The Board's Type 7 Supplementary Downsizing Benefit programme has been very successful. By the end of 1994, 2,741 members had retired under a Type 7 Agreement, funded by \$106 million of the allocated \$200 million of plan surplus.

**Pensioners
by Type of Pension**



This initiative and the pressures of the Social Contract caused a large increase in the volume of retirements in 1994, the first full year of the Social Contract, as employers encouraged employees to retire to help meet downsizing and Social Contract targets.

In 1994 membership in OMERS declined for the first time since its inception, albeit by less than 1%, as we processed a total of 5,580 early and normal retirement pensions in 1994, compared to 3,446 in 1993 and 3,345 in 1992.

PENSION INCREASE

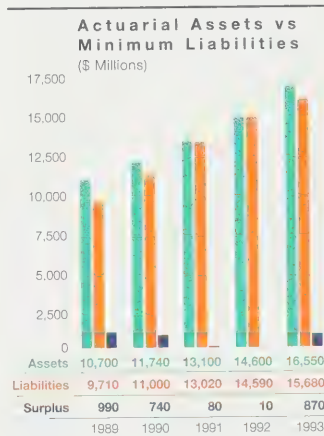
The OMERS plan is indexed to 70% of the increase in the Consumer Price Index (CPI) for the year measured September to September. Further ad hoc increases are granted to top-up the increase to 100% of the increase in the CPI when the plan surplus permits.

A pension increase of 0.2%, equal to 100% of the CPI increase, was applied on January 1, 1995 to pensions that began on or before December 1, 1993. Pensions that began after December 1, 1993 and before December 1, 1994 were increased by a prorated amount.

THE ACTUARIAL VALUATION

The OMERS actuarial valuation at December 31, 1993, conducted by The Wyatt Company, indicates a surplus of \$873 million. The funding surplus, reduced for the past two years by the 1991 introduction of pension indexing, has returned to the comfortable margin OMERS has historically maintained. Very healthy 1993 investment returns and members' reduced or frozen wages under the Social Contract helped to rebuild the surplus.

Although this valuation includes the initial impact of the Social Contract, reduced or frozen wages under the Social Contract, combined with the effect of the funding allocated to the Board's Social Contract initiatives in 1993, may continue to affect the actuarial valuation for the next few years.



As a prudent plan management measure, the Board has earmarked a portion of the surplus as a Funding Stabilization Reserve (FSR). The earmarked portion equals 5% of the plan liabilities, or \$784 million at December 31, 1993. The FSR will serve as a buffer to protect the plan against swings in the value of the plan assets due to investment returns, or plan experience that differs from actuarial assumptions. The FSR will help to prevent the OMERS plan from falling into a deficit position, thereby helping to ensure stable plan contribution rates.

MANAGED PLANS

OMERS has managed, for a fee, the administration and the assets of the pension plans for Ryerson Polytechnic University and the Colleges of Applied Arts and Technology (CAAT) since 1965 and 1967 respectively. Both Ryerson and the Colleges have decided to manage their pension plans more actively beginning in 1995.

The Ryerson Retirement Pension Plan served 1,262 active members and paid \$4 million to 306 pensioners in 1994. Early in 1995 Ryerson will begin to administer its own plan, although OMERS will continue to invest the plan's assets, which totalled \$217 million as at December 31, 1994.

By the end of 1994 the CAAT Pension Plan had 17,644 active members and had paid \$43 million in benefits to 4,226 pensioners during the year. An independent, jointly trustee pension board has been established to manage the affairs of the CAAT Pension Plan and will assume responsibility for the plan's investments in 1995. The \$2.2 billion in assets (as at December 31, 1994) which the CAAT plan has invested with the OMERS Fund will be transferred to the new board according to the terms of a transfer agreement being negotiated by the CAAT and OMERS Boards.

STRATEGIC OPERATING PLAN

Our current three-year strategic operating plan, which was approved by the Board late in 1992, is nearing completion. Many of the projects undertaken as part of the strategic plan have resulted in the implementation of new policies or procedures, while some projects are ongoing.

OMERS began a redevelopment of the membership system in 1993. The new system, which will be operational by 1998, will provide more effective processing and management of members' records.

Redevelopment of our investment and financial accounting systems began in 1994. The new system, which we hope to have operating by the end of 1996, will provide for more flexible financial and management reporting, easier and more timely access to information, and better analytical information for investment managers.

Our complex, global investment programmes cannot be abandoned, nor can our pension payroll, should fire or flood render our offices unusable. Over the past two years OMERS has developed a complete "business continuance plan" that will permit our investment and administrative staff to continue critical operations in the event of a disaster severe enough to prevent normal business operations.

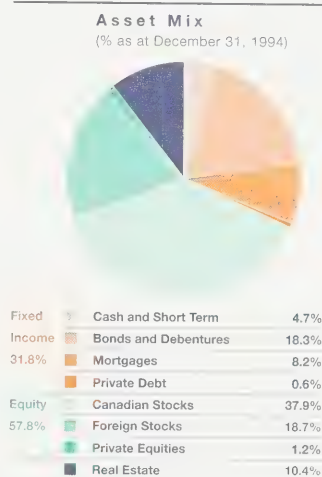
We began reviewing our pension communications programme in 1993, and continued the process of consulting our constituents through-

out 1994. The Board will examine the results of our studies in 1995, and determine whether any changes should be made.

As the old strategic plan nears completion, a new plan will be developed in the coming year for the years 1996 through 1998.

THE FUND

Buoyed by spectacular market returns in 1993 and early indications of vibrant economic growth, investors entered 1994 on a wave of optimism. The year turned grim, however, particularly for Canadian bonds, despite encouraging economic developments.



Canadian real GDP growth for the year was 4.5%, up from 2.2% in 1993. Although unemployment fell below 10% by year-end, wage settlements remained subdued which, combined with improved productivity and lower tobacco taxes, helped

Consolidated Investment Assets			
Market value as at December 31 (000's)		1994	1993
FIXED INCOME INVESTMENTS			
CASH AND SHORT TERM		\$ 965,678	\$ 655,526
ONTARIO DEBENTURES		995,524	1,297,821
MARKETABLE BONDS:		2,450,687	2,748,663
• CANADIAN			
• INTERNATIONAL		336,525	0
PRIVATE PLACEMENTS – DEBT		117,728	208,999
MORTGAGES:		545,143	725,063
• INSURED – RESIDENTIAL			
• NON-RESIDENTIAL		1,109,560	1,034,724
• REAL ESTATE HELD			
FOR RESALE		39,485	1,844
TOTAL FIXED INCOME INVESTMENTS		\$ 6,560,330	\$ 6,672,640
EQUITY INVESTMENTS			
STOCKS			
CANADIAN:			
• INDEXED		\$ 1,224,314	\$ 1,441,313
• ACTIVE		6,602,467	6,355,758
INTERNATIONAL:			
• INDEXED		1,747,105	1,591,420
• ACTIVE		2,111,202	1,999,703
TOTAL STOCKS		11,685,088	11,388,194
PRIVATE PLACEMENTS – EQUITIES		249,677	181,900
TOTAL EQUITY INVESTMENTS		\$ 11,934,765	\$ 11,570,094
REAL ESTATE		\$ 2,150,682	\$ 1,846,368
TOTAL INVESTMENTS AT MARKET VALUE		\$20,645,777	\$20,089,102

to keep consumer price inflation close to zero for the year. Nonetheless, continued high demand for capital on the part of Canadian governments, and our reliance on foreign investors to finance our mounting provincial and federal debt, contributed to a bearish tone in Canadian capital markets.

As the U.S. Federal Reserve engineered six interest rate increases in an effort to fight a perceived overheating of the U.S. economy, equity and bond markets, both domestic and foreign, felt the impact of America's interest rate adjustments.

As interest rates rose in most industrialized countries, bond markets plunged and equity investors became nervous. The impact was greatest in North America, where bond markets saw their worst performance in recent memory.

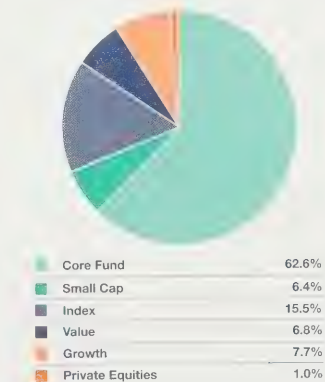
Our strategy of continued diversification into foreign markets helped in 1994, as it has over the years, to improve our returns. The fledgling foreign bond portfolio returned 2.2% in its first 5 months, compared to a return of -4.3% for our Canadian bonds over the full year. Our combined international equities returned

7.4%, well ahead of our Canadian equities return of 1.7%. The inclusion of the returns from our international portfolios raised the Fund's overall return by 120 basis points, or approximately a quarter of a billion dollars, a significant contribution to our total return.




































































Canadian Equities

The Canadian core fund is one of the largest discrete equity portfolios managed in Canada. It invests in the securities of companies with a net worth exceeding \$150 million. The core fund had a good year in 1994, returning 3.4% compared to a total return of -0.2% for the TSE 300 Index. The core fund's average annual return over four years was 11.2% compared to 9.9% for the TSE 300. A concentration in metals and minerals and in industrial products, combined with low exposure to gold, contributed to the core fund's strong performance in 1994.

Canadian Equity Portfolio
(as at December 31, 1994)



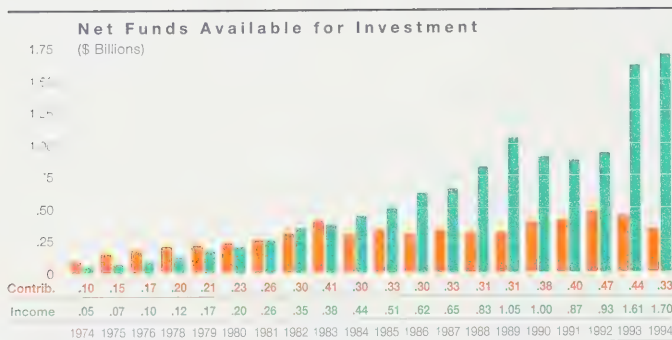
1994 Returns vs Benchmarks

	1 YEAR	4 YEARS	10 YEARS
ACTIVE MARKETABLE BONDS	-7.4 	11.2 	11.9 
SCOTIAMCLEOD L. T. BONDS	-7.4 	12.1 	12.3 
CORE INDEX BONDS	-7.5 	—	—
NESBITT BURNS L. T. GOVERNMENT BONDS	-8.2 	—	—
ONTARIO DEBENTURES (NOT APPLICABLE)	3.5 	12.2 	12.3 
MORTGAGES	1.0 	10.2 	11.7 
NESBITT BURNS 5 YEAR BOND	-4.5 	9.5 	—
PRIVATE PLACEMENT-DEBT	7.0 	6.4 	11.0 
NESBITT BURNS 5 YEAR BOND	-4.5 	9.5 	—
TOTAL FIXED INCOME	-3.2 	10.0 	11.6 
SCOTIAMCLEOD UNIVERSE BOND INDEX	-4.3 	11.0 	11.3 
CORE FUND	3.4 	11.2 	10.0 
TSE 300 INDEX	-0.2 	9.9 	9.2 
SMALL CAP	-1.8 	19.1 	—
NESBITT BURNS SMALL CAP WEIGHTED	-8.6 	13.5 	—
PRIVATE PLACEMENT-EQUITY	10.3 	5.6 	5.4 
TSE 300	-0.2 	9.9 	9.2 
TOTAL CANADIAN STOCKS	1.7 	10.7 	9.6 
TSE 300	-0.2 	9.9 	9.2 
INTERNATIONAL STOCKS	7.4 	16.4 	14.5 
SALOMON GLOBAL BMI (EXCLUDING CANADA)	11.2 	15.9 	—
REAL ESTATE	7.0 	4.5 	—
RUSSELL CANADIAN OFFICE & RETAIL PROP. INDEX	1.3 	-2.2 	—
TOTAL OMERS FUND	1.8 	10.6 	10.8 
CONSUMER PRICE INDEX	0.2 	1.9 	3.5 
CONSUMER PRICE INDEX + 4.25%	4.5 	6.2 	7.7 

Small capitalization equities were poor performers in 1994. The Nesbitt Burns Small Capitalization (Weighted) Index achieved an overall rate of return of -8.6%. The OMERS small cap fund, not burdened with the speculative stocks

that performed so well in 1993 and that fell so precipitously in 1994, posted a return of -1.8%, outperforming its index. Over the last four years, our small cap fund has done very well, with an average annual return of 19.1% compared to the

index return of 13.5%. The poor performance in the small capitalization sector is not expected to persist through 1995, and our fund will continue with its disciplined approach, striving for good performance with a moderate risk profile.



For our in-house index funds, our focus on trading and value-added strategies reduced volatility and our returns slightly exceeded those of the benchmark index. The last of our externally-managed index funds was converted to a semi-active growth-style mandate in August as part of the reorganization of our Canadian indexed equities begun in 1993. At year-end the Canadian indexed equity programme represented \$1.2 billion, or about 15.5% of our Canadian equity holdings.

Our restructured externally-managed Canadian equities programme operated for its first full year in 1994. The programme's emphasis is on broader diversification through

unique management styles, including small cap, conservative value, and higher growth. At year-end the programme had \$1.5 billion invested by professional portfolio managers outside OMERS.

The private equity portfolio, which includes some international investments, totalled \$250 million at year-end. Income and net realized capital gains were \$5.5 million and \$13.9 million, respectively. Several of our investments became publicly traded companies, and cash flows from our oil and gas investments were strong. The private equity markets offer attractive opportunities, and in 1994 we committed to several new investments.

International Equities

Global diversification displayed its benefits in 1994. Although equity and fixed income markets in Canada and abroad fared poorly through much of the year, the weakness of the Canadian dollar translated into respectable foreign investment returns in Canadian dollar terms. The equity markets of the Pacific rim returned nearly 21% in 1994 according to the Salomon Brothers Pacific Broad Market Equity Index. European equity markets returned 8.7% last year, while the U.S. market returned 7.2% in Canadian dollar terms.

Our international investments, including actively and passively managed fixed income securities and equities, represented 21.1% of the market value of the total Fund, (just under the 20% of book value maximum permitted) or about \$4.5 billion, at year-end.

The actively managed foreign equities programme was fine-tuned in 1994, with a move to more specialized portfolios and more geographic diversification, to reduce the risk of underperforming our bench-

Global Equity Returns by Market Indices

(1 Year Returns as at December 31, 1994)



marks. For example, the appointment of a specialist equity manager whose mandate is to invest only in Japanese stocks has further increased our focus on the Japanese market, which posted a relatively strong performance in 1994. We also returned, through the private placements portfolio, to the "fund" market with our first Emerging Market fund, China Renaissance.

Our U.S. S&P 500 and S&P Mid-Cap index funds were brought in-house as a direct result of the success of the in-house Canadian programme. Performance has met our expectations, showing returns of 6.5% and 5.7% respectively. At year-end the combined U.S. equity index fund was valued at \$1.3 billion or about 28.8% of our international equity holdings.

Foreign currency exposure benefited us in 1994, and in 1995 OMERS will undertake a multi-currency management programme that uses a disciplined approach to limit risk while retaining the potential for gains due to currency appreciation.

Fixed Income

Our fixed income investments, comprising actively and passively managed Canadian and foreign marketable bonds, Ontario debentures, mortgages, private placements (term loans) and cash formed 31.8% of the Fund's assets at year-end.

Canadian bond returns were negative as the Bank of Canada was

forced to follow the U.S. lead in raising interest rates. In addition, the Canadian dollar came under extreme pressure, particularly towards the end of the year, as Canadian budget deficit problems continued to erode confidence. For the year, short rates in Canada showed an increase of 315 basis points while long rates moved up 205 basis points, both very significant changes.



The Canadian core bond fund, totalling \$1.3 billion at year-end, replaced our indexed bond fund, expanding its mandate to one of adding value against its index by exploiting market inefficiencies. The actively managed Canadian marketable bonds portfolio was reduced in size to \$844 million by year-end as assets were transferred to the core bond fund. Careful analysis and some interest rate anticipation led to astute trading that gave both portfolios enhanced returns compared to their benchmarks.

Part of the overall diversification and return enhancement strategy for the OMERS Fund included the introduction of an actively managed foreign bond portfolio in 1994. The new portfolio has a quantitative management style stressing country and currency allocation and detailed yield curve analysis. By year-end, the portfolio totalled \$337 million and had returned 2.2% in its first five months, a better performance than its benchmark, the J. P. Morgan Global Government Bond Index (excluding Canada).

Our expanded and fully integrated cash management function saw increased activity in the management of our \$566 million money market portfolio. The cash management function serves as a "banker" to our investment operations and is expected to provide returns better than those of the ScotiaMcLeod 91-Day Treasury Bill Index.

We continued our strategy of pursuing high quality commercial mortgage loans that meet our conservative underwriting criteria. As a result of favourable lending conditions and the high performance of our loan portfolio, OMERS was able to secure \$196 million of new business and renewals with an average 236 basis point premium over bonds of like maturity. The quality and performance of our loan portfolio continues to allow us to capitalize on new investment opportunities in the high yielding commercial market, although spreads will likely

return to normal levels as competition for lending opportunities increases.

At year-end the private loans portfolio totalled \$118 million, as maturities, redemptions and amortization reduced the portfolio by \$91 million over the year. Investment activity was very low in 1994 because proposals were not attractive and competition for new business was aggressive. Three overdue loans were repaid to us, and we were able to capture over \$2.0 million in fees, bringing the portfolio's return to 7.0%.

Real Estate

OMERS Realty Corporation, a wholly owned subsidiary of OMERS, manages a high-quality, well diversified real estate portfolio. Properties are purchased in their entirety or as joint ventures with other institutions or developers, and are professionally managed on our behalf.

The portfolio now holds interests in 39 properties comprising some 12 million square feet of leasable

office and retail space. On average, our holdings are 95.1% leased, with regional shopping centres achieving a 96.8% lease rate.



The prolonged period of depressed real estate prices in Canada has allowed us to build a very high quality portfolio at attractive prices. OMERS Realty continued its acquisition programme, adding a 50% interest in five regional shopping centres in 1994, four in Ontario and one in Quebec.

At the end of 1994 the portfolio had a market value of \$2.2 billion, about 10.4% of the OMERS Fund's

investment assets. Real Estate returned 7.0% in 1994, compared to 2.7% in 1993, 1.5% in 1992 and 0.4% in 1991.

Outlook

The potential volatility of capital markets was amply demonstrated by the wide swing in the OMERS Fund's returns from 1993 to 1994. The lesson repeated, once again, is the need for diversity in the Fund to reduce the variability of returns. For example, if OMERS had had all its assets invested in Canadian bonds last year, the return would have been significantly lower than it was. The overall return was enhanced by diversifying the Fund into such investments as foreign bonds, mortgages, real estate, and international and domestic equities.

OMERS will maintain its disciplined approach to investing both domestically and internationally. In the long run, we believe investment discipline and diversity will be rewarded with better and more stable returns.

A C T U A R I A L C O S T C E R T I F I C A T E

AS AT DECEMBER 31, 1994

FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD



The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1993 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Standard of Practice for Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The actuarial valuation of OMERS as at December 31, 1993 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion, the data are sufficient and reliable for the purposes of actuarial valuation.

In our opinion, the assumptions adopted for our actuarial valuation of OMERS are appropriate, and the methods employed are consistent with sound actuarial principles. Nonetheless, the experience of OMERS in the future may be different from the actuarial assumptions, and may result in gains or losses which will be revealed in future actuarial valuations.

The results of the actuarial valuation disclosed total Actuarial Liabilities of \$15,674.764 million in respect of benefits accrued for service prior to December 31, 1993, including the effect of an ad hoc adjustment to pensions as at January 1, 1994. The Actuarial Assets at that date were \$16,547.930 million indicating an actuarial surplus of \$873.166 million.

The results of the actuarial valuation also indicated that the existing levels of member and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1994 taking into account amendments made to the Plan up to December 31, 1994. Further, we have calculated the Actuarial Assets at December 31, 1994.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1994 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted
THE WYATT COMPANY

A handwritten signature in dark ink that reads "Martin Brown".

Martin J.K. Brown, F.I.A.
FELLOW, CANADIAN INSTITUTE OF ACTUARIES
March 24, 1995

A U D I T O R S ' R E P O R T

TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD



We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1994 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Toronto, Canada

March 24, 1995

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF NET ASSETS

DECEMBER 31 (000's)	1994	1993
ASSETS		
INVESTMENTS (NOTE 2)	\$20,645,777	\$20,089,102
LONG TERM RECEIVABLES (NOTE 3)	49,147	61,847
CONTRIBUTIONS RECEIVABLE	84,029	79,202
ACCRUED INCOME	387,920	153,023
	21,166,873	20,383,174
LIABILITIES		
DUE TO MANAGED PENSION PLANS (NOTE 4)	2,463,316	2,361,410
ACCRUED LIABILITIES	314,758	243,627
	2,778,074	2,605,037
NET ASSETS (NOTE 5)	\$18,388,799	\$17,778,137

SIGNED ON BEHALF OF THE BOARD,


MEMBER


MEMBER

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31 (000's)	1994	1993
INCREASES IN NET ASSETS		
CONTRIBUTIONS (NOTE 6)	\$ 879,401	\$ 902,188
NET INVESTMENT INCOME (NOTE 7)	1,483,845	1,419,067
UNREALIZED MARKET APPRECIATION OF INVESTMENTS	0	1,948,439
	2,363,246	4,269,694
DECREASES IN NET ASSETS		
UNREALIZED MARKET DEPRECIATION OF INVESTMENTS	1,171,241	0
BENEFITS (NOTE 8)	546,119	463,373
ADMINISTRATIVE EXPENDITURES (NOTE 9)	35,224	33,039
	1,752,584	496,412
INCREASE IN NET ASSETS	610,662	3,773,282
NET ASSETS AT BEGINNING OF YEAR	17,778,137	14,004,855
NET ASSETS AT END OF YEAR	\$18,388,799	\$17,778,137

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1994

GENERAL

The Ontario Municipal Employees Retirement System (OMERS) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the Ontario Municipal Employees Retirement System Act (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the Ontario Pension Benefits Act, Registration #C006725.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual contributory earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The Pension Benefits Act of Ontario (PBA) requires that participating employers fund the benefits determined under the Plan. In accordance with the PBA the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability waivers and benefits, and termination benefits are available to members who meet the Plan requirements. Complete information may be found in the OMERS Act and Regulation or by contacting OMERS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity.

CONSOLIDATION

The consolidated financial statements include the accounts of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and OMERS proportionate share of the assets, liabilities, and operating income of real estate properties jointly owned with others.

INVESTMENTS

Investments are recorded as of the trade date and are stated at market value. The change in the difference between market value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets as unrealized market appreciation/depreciation of investments.

Market values of investments are determined as follows:

- (i) Short term deposits are recorded at cost which approximates market value.
- (ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market values are not available, estimated values are calculated using discounted cash flows based on current market yields, comparative securities, independent asset appraisals and financial analysis.
- (iii) Real estate, comprising primarily income producing properties, is carried at appraised values determined annually by an independent appraiser in accordance with generally accepted appraisal practices and procedures, based mainly on discounted cash flows for a ten year period. In performing the appraisals, certain assumptions are made with respect to future economic conditions and rates of return. Jones Lang Wootton Canada Inc. is the firm of independent appraisers used.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1994 (Continued)

(iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk.

(v) Equity index futures contracts are valued at year-end quoted market prices.

Investment income, which is recorded on the accrual basis, includes dividends, interest income, and real estate operating income as well as capital gains and losses which have been realized on investments.

FOREIGN CURRENCY TRANSLATION

The market value of foreign currency denominated investments included in the statement of net assets are translated into Canadian dollars at the year-end rate of exchange. Gains and losses arising from this translation are included in unrealized appreciation/depreciation of investments.

Foreign currency denominated transactions, as well as cost amounts included in Note 2 to the financial statements are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

1. RESPONSIBILITIES OF THE ACTUARY AND EXTERNAL AUDITORS

The actuary is appointed by the Board of OMERS. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are appointed by the Board. Their responsibility is to report to the Board regarding the fairness of presentation of OMERS financial position, results of operations and changes in financial position as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuaries for the actuarial liabilities as disclosed in the notes to the financial statements in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

2. INVESTMENTS

(000's)	1994		1993	
	MARKET VALUE	COST	MARKET VALUE	COST
CASH AND SHORT TERM DEPOSITS	\$ 965,678	\$ 965,678	\$ 655,526	\$ 655,526
CANADIAN BONDS AND DEBENTURES	3,446,211	3,601,248	4,046,484	3,716,894
NON-CANADIAN BONDS	336,525	331,545	0	0
PRIVATE DEBT	117,728	141,552	208,999	220,535
MORTGAGES	1,694,188	1,661,888	1,761,631	1,597,810
CANADIAN EQUITIES	7,826,781	6,782,021	7,797,071	6,224,194
NON-CANADIAN EQUITIES	3,858,307	3,213,857	3,591,123	2,773,032
REAL ESTATE	2,150,682	2,359,417	1,846,368	2,054,774
RESOURCE PROPERTIES	39,700	45,761	44,666	43,566
CANADIAN PRIVATE EQUITY	39,111	48,044	28,790	33,733
NON-CANADIAN PRIVATE EQUITY	170,866	146,542	108,444	96,232
	\$20,645,777	\$19,297,553	\$20,089,102	\$17,416,296

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1994 (Continued)

Canadian bonds and debentures include Province of Ontario debentures having a market value of \$995,524,000 and a cost of \$1,014,700,000 (1993 - market \$1,297,821,000, cost \$1,163,525,000), bearing a weighted average interest rate of 9.18% (1993 - 9.18%), and maturing at various dates through December 31, 2006 (\$148,825,000 matured December 31, 1994).

The principal amounts of the equity index futures contracts outstanding at year-end are \$120,401,000 (none in 1993). The principal amounts are not exchanged themselves, but serve as the basis upon which the payment of investment returns and the market value of the contracts are determined.

Equity futures contracts are exchange traded agreements either to buy or to sell the returns of equity securities. As a result of entering into these contracts, returns are generated that are equivalent to the gain or loss that would arise if the securities had been bought or sold directly at future prices.

At December 31, 1994, the Fund held the following investments each having a market value or cost exceeding 1% of the market value or cost of total investments:

(000's)	NUMBER OF INVESTMENTS	1994 AGGREGATE	
		MARKET VALUE	COST
CANADIAN EQUITIES	4	\$1,024,490	\$ 870,875
REAL ESTATE PROPERTIES	3	548,780	652,823
CANADIAN BONDS AND DEBENTURES	2	581,073	610,889
	9	\$2,154,343	\$2,134,587

Real estate investments above include ownership interests in the following properties all of which are located in Toronto, Ontario: BCE Place (Canada Trust Tower); Water Park Place; and One Financial Place.

3. LONG TERM RECEIVABLES

Under the terms of the OMERS Act and Regulation certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long term receivables to be paid, with interest, over a period not to exceed fifteen years.

4. DUE TO MANAGED PENSION PLANS

The managed pension plans which form part of the Fund, are administered on behalf of the Ontario Council of Regents for the Colleges of Applied Arts and Technology, the Ryerson Polytechnic University, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

A new management agreement for the CAAT Pension Plan was approved by the Lieutenant Governor in Council by Order-In-Council on December 21, 1994. This has established a new board to administer the CAAT Pension Plan, including the CAAT Pension Fund effective January 1, 1995.

Under the terms of the management agreement, administration of contributions of the CAAT Pension Plan was assumed by the new CAAT Board as of January 1, 1995, and the portion of the commingled investments of the Fund attributable to the CAAT Pension Fund will be transferred to the new CAAT Board by December 31, 1995.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1994 (Continued)

5. NET ASSETS

The actuarial valuation was conducted as of December 31, 1993 and has been extrapolated to December 31, 1994. The projected unit credit method, prorated on services, and certain funding assumptions were used in the valuation and the extrapolation.

Investments are valued at market value as at December 31, 1994 for financial statement purposes, as disclosed in note 2. The actuarial value of net assets has been determined using an actuarial formula based on market values over the last five year period. The objective of this process is to smooth out the effects of market volatility by averaging market values while reflecting long term historical investment trends.

The actuarial present value of accrued pension benefits includes benefits for active members, pensioners and deferred vested pensioners.

At December 31, 1993, the actuarial assets exceeded the actuarial liabilities by \$873 million, out of which five per cent of the plan liabilities, or \$784 million, has been allocated to the Funding Stabilization Reserve.

The extrapolation of the actuarial valuation to December 31, 1994 has taken into account amendments made to the plan up to December 31, 1994. The 1993 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1993.

(000's)	1994	1993
MARKET VALUE OF NET ASSETS AT END OF YEAR	\$18,385,913	\$17,777,518
ADD MARKET VALUE ADJUSTMENT FOR ACTUARIAL PURPOSES	(260,913)	(1,229,588)
ACTUARIAL VALUE OF NET ASSETS AT END OF YEAR	18,125,000	16,547,930
ACTUARIAL PRESENT VALUE OF ACCRUED PENSION		
BENEFITS AT BEGINNING OF YEAR	\$15,675,000	\$14,590,202
AD HOC INCREASES TO PENSION BENEFITS	3,000	27,161
CHANGE IN ACTUARIAL ASSUMPTIONS	0	(26,113)
INTEREST ACCRUED ON BENEFITS	1,386,000	1,296,750
BENEFITS ACCRUED	1,014,000	923,405
BENEFITS PAID	(546,000)	(463,373)
EXPERIENCE (GAINS) LOSSES	(837,000)	(673,268)
ACTUARIAL PRESENT VALUE OF ACCRUED PENSION		
BENEFITS AT END OF YEAR	\$16,695,000	\$15,674,764
EXCESS OF ACTUARIAL VALUE OF NET ASSETS OVER ACTUARIAL		
PRESENT VALUE OF ACCRUED PENSION BENEFITS	\$ 1,430,000	\$ 873,166

6. CONTRIBUTIONS

(000's)	1994	1993
MEMBERS	\$ 428,114	\$ 438,195
EMPLOYERS, CURRENT SERVICE	428,114	438,195
EMPLOYERS, LONG TERM RECEIVABLES AND INTEREST THEREON (NOTE 3)	9,292	11,612
TRANSFERS FROM OTHER PENSION PLANS	6,397	5,188
OTHER PURCHASED SERVICE	7,345	8,415
UNREDUCED EARLY RETIREMENT BENEFITS	139	583
	\$ 879,401	\$ 902,188

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1994 (Continued)

7. NET INVESTMENT INCOME

(000's)	1994	1993
SHORT TERM DEPOSITS	\$ 31,795	\$ 41,786
CANADIAN BONDS AND DEBENTURES	322,645	273,828
NON-CANADIAN BONDS AND DEBENTURES	8,841	0
PRIVATE DEBT	23,420	28,820
MORTGAGES	170,252	176,497
CANADIAN EQUITIES	202,691	179,187
NON-CANADIAN EQUITIES	73,230	62,293
REAL ESTATE	152,470	125,503
RESOURCE PROPERTIES	239	3,320
PRIVATE CANADIAN EQUITIES	1,405	1,491
PRIVATE NON-CANADIAN EQUITIES	3,886	2,350
	990,874	895,075
REALIZED CAPITAL GAINS	703,950	719,032
	\$1,694,824	\$1,614,107
LESS INCOME CREDITED TO:		
MANAGED PENSION PLANS	(198,296)	(186,654)
PROVISION FOR SUPPLEMENTARY RETIREMENT BENEFITS	(12,683)	(8,386)
	\$1,483,845	\$1,419,067

8. BENEFITS

(000's)	1994	1993
MEMBERS' PENSIONS	\$ 490,704	\$ 414,345
MEMBERS' CONTRIBUTIONS PLUS INTEREST REFUNDED	50,715	43,473
TRANSFERS TO OTHER PENSION PLANS	4,700	5,555
	\$ 546,119	\$ 463,373

9. ADMINISTRATIVE EXPENSES

(000's)	1994	1993
PERSONNEL SERVICES	\$ 18,181	\$ 18,421
TRANSPORTATION AND COMMUNICATION	1,052	864
ACTUARIAL SERVICES	465	497
AUDIT SERVICES	300	350
LEGAL SERVICES	270	413
OTHER PROFESSIONAL SERVICES	444	345
OCCUPANCY COSTS AND MUNICIPAL TAXES	4,153	3,906
SYSTEMS DEVELOPMENT PURCHASED SERVICES	2,334	1,361
OTHER PURCHASED SERVICES	4,793	4,308
EQUIPMENT AND DEPRECIATION	2,196	1,658
MATERIALS AND SUPPLIES	1,036	916
	\$ 35,224	\$ 33,039

SENIOR OFFICERS AND MEMBERS OF THE 1995 BOARD

BOARD MEMBERS

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Firefighter, City of Toronto

1ST VICE CHAIR

Joanne Fulkerson
Director of Human Resources,
Thunder Bay Hydro

2ND VICE CHAIR

David A. Griffin
Administrator,
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IMMEDIATE PAST CHAIR

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Public Health Nurse,
City of Toronto

PAST CHAIR

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Fayne Bullen
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Wasim Hassan
Director Utility Practices,
Municipal Electric Association

Gerry W. Lawson
Treasurer and Commissioner of
Finance, Regional Municipality of
Hamilton-Wentworth

Susan O'Gorman
Public Health Nurse,
York Regional Public
Health Department

Roger H. Richard
Superintendent of Business
and Treasurer,
The Lennox & Addington County
Board of Education

Donald W. Ross
Retiree

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1ST VICE CHAIR

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INVESTMENT DIVISION

M. Jane Williams
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One University Avenue, Suite 1000, Toronto, Ontario M5J 2P1
(416) 369-2400, 1-800-387-0813

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ONTARIO MUNICIPAL EMPLOYEES' RETIREMENT BOARD

GOVERNANCE:

direction and accountability are
equally important to the effective
management of OMERS and to
enhanced investment returns.

1995

ANNUAL REPORT



ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 as a multi-employer pension plan for employees of local governments in Ontario. A total of 1,130 municipalities, boards, school boards and commissions participate in the plan.

Managed by a 13 member Board appointed by the Ontario Government, OMERS is operated by and for municipal employees and employers. Five members of the Board are employees of local governments, one is a pensioner, four are officers of the participating employers, two are elected or appointed officials of municipalities or local boards, and one member is a Provincial official.

OMERS is a defined benefit pension plan financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund. In keeping with our mandate, the OMERS vision is as follows.

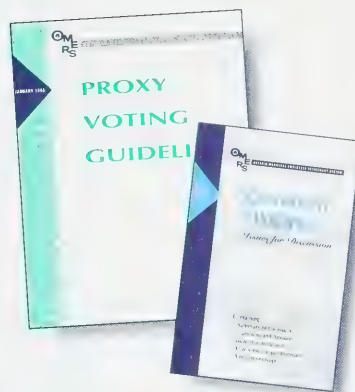
- OMERS will be an autonomous, self-funded pension plan managed by and for its members and employers.
- OMERS will provide a choice of pension options for employees engaged in the delivery of local government services.
- OMERS will keep its “pension promise” through prudent investment and cost-effective management.

WORKING TOGETHER FOR YOUR RETIREMENT

GOVERNANCE

Having developed ideas for changes to the governance of OMERS, the Board consulted plan members, employers, and their representative unions and organizations. With the strong support of plan participants, the Board forwarded eight proposals to the Ontario Government in November. The Board believes that the proposed changes will result in a more effective and accountable governance of OMERS.

The OMERS Board also believes that effective corporate governance will result in better investment returns. As a shareholder, OMERS votes its extensive equity holdings according to the principles expressed in the *Proxy Voting Guidelines* to encourage good governance practices in the companies in which it invests.



Actuarial Valuation Results

(millions) as at December 31	1994	1993
Actuarial Assets	\$18,125	\$16,548
Actuarial Liabilities	16,954	15,675
Actuarial Surplus	\$ 1,171	\$ 873

THE ACTUARIAL VALUATION

The OMERS actuarial valuation at December 31, 1994 shows a surplus of \$1.2 billion. The effects of Ontario's Social Contract programme are reflected in this valuation. Of the surplus, \$847.6 million is required for the Funding Stabilization Reserve, which helps to provide stability through periods of volatility in capital markets, or unexpected changes in membership demographics.



COLLEGES OF APPLIED ARTS AND TECHNOLOGY

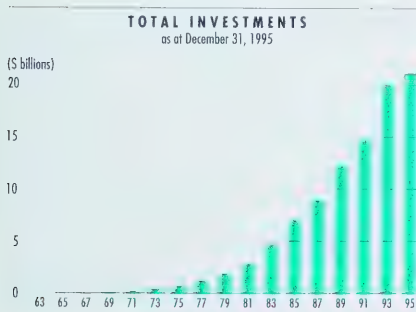
The Colleges of Applied Arts and Technology (CAAT) set up an independent pension board to take over the management of their own plan as of January 1, 1995. OMERS had managed the CAAT plan since 1967. About \$2.4 billion in assets, which had been invested as part of the "pooled" OMERS Fund, were transferred to the new board as of December 31, 1995. Unless otherwise noted, the year-end figures for the OMERS Fund throughout this report and in the consolidated financial statements are shown excluding the amount transferred to CAAT.

Transfer of Assets

(000's)	After CAAT Separation	Before CAAT Separation
as at December 31, 1995		
Investment Assets	\$21,277,045	\$23,675,892
Amounts not distributed at year-end	(105,695)	
	\$21,171,350	\$23,675,892

THE OMERS FUND

The total assets of the consolidated Fund reached more than \$23 billion in 1995. Excluding assets of about \$2.4 billion transferred to the new CAAT Pension Plan board, the Fund's year-end assets totalled \$21 billion. Excellent growth in Canadian and international bonds and equities provided a return of 14.2% for the OMERS Fund in 1995. Because the Canadian and U.S. markets are closely linked, OMERS underweights the U.S. in its international investments to achieve greater diversification. This fact, and an unusually high ratio of cash held to facilitate the transfer of assets to CAAT, moderated the Fund's 1995 total return.





Governance, the direction and control of an organization, is equally important to the management of OMERS and the many corporations in which the OMERS Fund invests.

The Board's review of the governance of OMERS, which began in 1994, resulted in a number of proposals for change. The Board believes that change could improve the operation of the OMERS pension plan and ensure more effective control by plan participants.

In the spring of 1995 some ideas for change were submitted to plan members and employers, and to their unions and other representative organizations, for consideration and response. This consultation was very successful; thousands of plan participants took the time to respond and many sent additional thoughtful comments about the governance of OMERS and the future direction of the plan. The response indicated strong support for most of the Board's initiatives.

The Board forwarded its final, specific proposals for change to the Ontario Government in November. If they are accepted, the changes will give

plan members and employers greater control over Board membership and appointments. They will alter the process of making changes to the plan by sharing responsibility between OMERS and the Province, and will increase the Board's flexibility in offering benefit options, an arrangement better suited to today's conditions in local government.

At the same time, the OMERS Board is active in encouraging effective corporate governance and accountability. The protection of shareholders' rights is an element of prudent investment, and OMERS has an obligation to safeguard members' and beneficiaries' interests. It is our responsibility to ensure that the companies in which we invest are run in the best interests of their shareholders. We believe that effective corporate governance will enhance our long-term investment returns, ensuring that we fulfill our fiduciary duty and helping us to meet our pension promise.

In part, we ensure effective corporate governance through the diligent voting of shares. Several years ago we published proxy voting guidelines that set out our approach to many of

the most common shareholder issues. We vote our shares in accordance with our guidelines, and have actively and publicly promoted the adoption of such fundamental principles as keeping the board of directors independent of corporate management.

Fair valuation of companies taken private by their majority shareholders is another aspect of the corporate governance issue. OMERS, as a large minority shareholder, has taken a strong stand in seeking a fair offer in several such transactions.

In addition, each company taken private reduces the number of publicly traded companies available for investment. Institutional investors like OMERS, restricted to placing most of their capital in the Canadian markets, must view with concern any increase in closely held corporate ownership. We will continue to monitor this apparent trend.

The OMERS Fund achieved a total return of 14.2% in 1995. Canadian real GDP growth and inflation remained low and falling interest rates here and in the United States helped both the bond and equity markets to fare well despite the

political turbulence of the referendum in Quebec. We continue to use permitted levels of international investments to provide the diversification that will help to offset volatility in Canadian capital markets.

For many years OMERS managed, for a fee, both the administration and the assets of the pension plans of Ryerson Polytechnic University and the Colleges of Applied Arts and Technology (CAAT).

Ryerson has chosen to administer its own plan, beginning in 1995, although OMERS continues to invest the plan's assets. An independent pension board was established to manage the affairs of the CAAT Pension Plan. The new board assumed responsibility for the plan's administration and investments at the end of 1995.

About \$2.4 billion in cash and securities were transferred

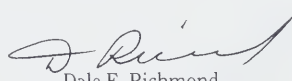
to CAAT as of December 31, 1995. The effect of the separation of the CAAT plan's assets is reflected in the OMERS Fund's consolidated financial statements for 1995.

Ontario's Social Contract comes to an end on March 31, 1996, and so do the OMERS Social Contract initiatives. These were very successful, and the Board is proud of having been able to assist plan members and employers during this period of change and adjustment. The Type 7 Supplementary Downsizing Benefit programme, for example, helped employers and members meet their Social Contract obligations while protecting members' pension benefits. The cost of funding the Social Contract provisions has been largely offset by an increase in the plan surplus resulting, in part, from wage restraints during this period.

The Board has asked the Ontario Government to extend the Type 7 programme as an employer-paid supplementary benefit. The enhanced early retirement benefits will help employers and members in downsizing situations.

The OMERS Board remains committed to finding creative ways to assist plan participants as adjustments continue in Ontario's local government sector. However, maintaining a fully funded pension plan is the best guarantee that the pension promise to our 260,000 members will be honoured.


Joanne Fulkerson,
Chair


Dale E. Richmond,
President and C.E.O.

FIVE YEAR REVIEW OF PLAN DATA

	1995	1994	1993	1992	1991
Employers					
Municipalities	534	529	538	538	536
School boards	134	134	134	135	131
Other local boards	462	457	448	448	447
	1,130	1,120	1,120	1,121	1,114
Contributing Members					
by employer					
Municipalities	94,068	94,964	95,462	94,334	92,870
School boards	52,926	52,637	53,076	53,079	52,107
Other local boards	41,283	41,397	41,638	42,289	42,361
Inactive groups	7	35	21	89	129
	188,284	189,033	190,197	189,791	187,467
by sex					
Female	92,146	91,618	91,001	89,612	86,903
Male	96,138	97,415	99,196	100,179	100,564
	188,284	189,033	190,197	189,791	187,467
by normal retirement age					
Age 65	165,085	165,989	167,082	166,571	164,306
Age 60	23,199	23,044	23,115	23,220	23,161
	188,284	189,033	190,197	189,791	187,467
Terminated members who have					
elected a deferred pension	8,532	8,163	7,947	7,769	7,444
Number of pensioners by type of pension					
Normal retirement	23,212	22,914	22,538	21,967	21,297
Early retirement	23,843	20,072	16,165	14,511	12,994
Spouses and children	13,261	12,628	11,987	11,278	10,494
Disability pension	2,846	2,814	2,743	2,654	2,546
	63,162	58,428	53,433	50,410	47,331
Total membership comprising					
Active members, inactive					
members and pensioners	259,978	255,624	251,577	247,970	242,242
Number of members enrolled per year	9,225	8,440	8,112	10,933	16,532
Number of new retirements per year	5,459	5,804	3,688	3,576	3,250
Number of other terminations per year	4,515	3,800	4,018	5,033	6,353
Net increase (decrease) in active members	(749)	(1,164)	406	2,324	6,929

FIVE YEAR REVIEW OF FINANCIAL DATA

\$ Millions	1995	1994	1993	1992	1991
	After Separation of CAAT	Before Separation of CAAT			
*Investments at market value					
Ontario debentures	818.1	919.7	995.5	1,297.8	1,301.3
Marketable securities	20,458.9	22,756.2	19,650.3	18,791.3	14,529.7
	21,277.0	23,675.9	20,645.8	20,089.1	14,792.2
*Assets at market value for					
Basic plan	21,212.7	21,212.7	18,388.8	17,778.1	14,004.8
Supplementary benefits agreements	120.6	120.6	133.9	139.3	136.3
Administered pension funds	344.9	2,777.2	2,463.3	2,361.4	1,840.5
	21,678.2	24,110.5	20,986.0	20,278.8	15,981.6
Investment income earned					
Basic plan	1,329.1	1,362.6	1,483.8	1,419.1	815.4
Supplementary benefits agreements	11.5	11.5	12.7	8.4	8.3
Administered pension funds	215.5	182.0	198.3	186.6	106.3
	1,556.1	1,556.1	1,694.8	1,614.1	930.0
Contributions received for					
Basic plan	869.1		870.0	890.0	878.1
Basic plan unfunded liabilities	5.4		9.3	11.6	11.5
Supplementary benefits agreements	1.1		0.1	0.6	0.3
	875.6		879.4	902.2	889.9
Payments to members					
Pensions paid	570.1		490.7	414.3	372.6
Contributions and interest refunded	66.7		50.7	43.5	37.4
Transfers to other plans	6.5		4.7	5.6	12.9
	643.3		546.1	463.4	422.9
Administrative expenditures					
Pension programme	16.7		17.5	16.5	16.6
Investment programme	18.6		17.7	16.6	15.6
	35.3		35.2	33.1	32.2
Total Fund annual rates of return					
Dollar-weighted return					
on book value	7.9%		9.5%	10.2%	6.4%
Time-weighted return					
on market value	14.2%		1.8%	23.7%	3.9%

*as at December 31

Governing OMERS

The OMERS plan is jointly managed by a 13 member board, of which six members (including one pensioner) represent plan members, six represent participating employers and one represents the provincial government. The OMERS Board is responsible for the management and financing of the OMERS pension plan, including the investment of its assets. The plan and the Board's mandate are set out in the OMERS Act and Regulation.

OMERS has a unique combination of characteristics, including its highly diverse constituency and the size of its Fund (\$21.3 billion after the

separation of the CAAT plan's assets). The plan is fully funded, financed by equal contributions from participating employers and members, and by the investment earnings of the OMERS Fund which is primarily invested in capital markets.

OMERS has operated successfully for more than 30 years. Nonetheless, in 1994 the Board began reviewing how the plan is governed and the relationship between OMERS and the Ontario Government. By the spring of 1995, after much discussion, the Board had developed a number of ideas for change that it believed could improve the operation of the OMERS pension plan and

ensure more effective control by plan participants.

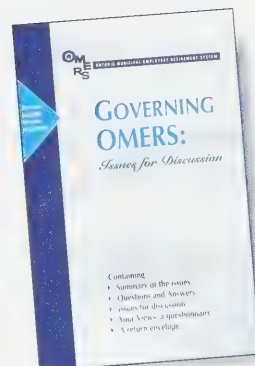
OMERS then sent a booklet, *Governing OMERS: Issues for Discussion*, containing the Board's ideas for change and a survey soliciting opinions, to all active members, pensioners, employers, and their representative organizations. Discussions were held with unions and professional groups representing plan members and employers.

The results of this extensive consultation were very positive; both the survey responses and the discussions strongly endorsed the Board's initiative.

With the support of the plan participants, the Board forwarded eight specific proposals to the Ontario Government in November. The proposals fall into three categories:

- sharing responsibility for plan changes between the Board and the Province,
- increased Board flexibility in the benefits and portability options the plan offers, and
- greater control of Board membership and appointments by plan members and employers.

The Board believes that the proposed changes to the governance structure will result in a more effective and accountable



Members by Type of Employer

as at December 31, 1995

Employers		%	Members	%
Cities	51	4.5	47,509	25.2
Regional Municipalities	14	1.2	27,015	14.4
Towns	134	11.9	9,991	5.3
Townships	256	22.7	3,824	2.0
Villages	50	4.4	396	0.2
Counties	27	2.4	5,113	2.7
Boards of Education	134	11.9	52,761	28.0
Public Utilities	195	17.3	9,572	5.1
Children's Aid Societies	49	4.3	4,645	2.5
Library Boards	61	5.4	3,810	2.0
Health Units	24	2.1	3,940	2.1
Others	135	11.9	19,708	10.5
Totals:	1,130	100	188,284	100

governance of OMERS as well as a more flexible and efficient operation of the OMERS plan.

Improving Service

In order to meet a stated objective, "to provide high quality service to all our clients, in an effective and efficient manner," OMERS works constantly to improve services.

Much of the work at OMERS consists of processing vast amounts of information using an array of computer hardware and software. The maintenance and redevelopment of our systems is a continuous process.

In 1995 work continued on the modernizing of the pension administration computer system, a major, multi-year project that began in 1993. By the end of 1995 work on the system specification phase – the foundation for the new system represented by thousands of pages of documentation – was almost complete. The construction phase will begin in the first half of 1996, and completion of the entire project is expected in 1998. The new system will enable OMERS to provide improved and more flexible service to plan members and employers.

A review of the effectiveness of the pension communications programme, begun in 1994, bore fruit in 1995. The Board approved revisions to the programme, to be phased in over a three year period, beginning in 1996. The plan includes the reworking of existing communication materials, making them more effective, and the introduction of new material that will make use of new techniques and technologies.

Social Contract

The Board's Type 7 Supplementary Downsizing Benefit programme gives employers who are downsizing a package of enhanced early retirement benefit options they can offer their members. During the Social Contract period, which ends March 31, 1996, the programme has been funded, for employers using downsizing savings to meet Social Contract obligations, by plan surplus allocated by the Board.

The Social Contract Type 7 programme has been very successful. The increase in the volume of retirements we experienced in 1994 continued in 1995, fuelled in part by this initiative and by the pressures of the financial constraints in

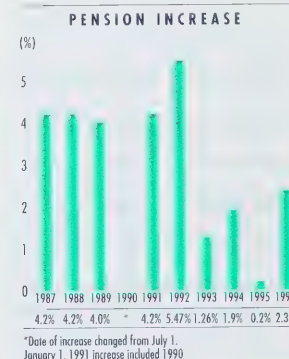
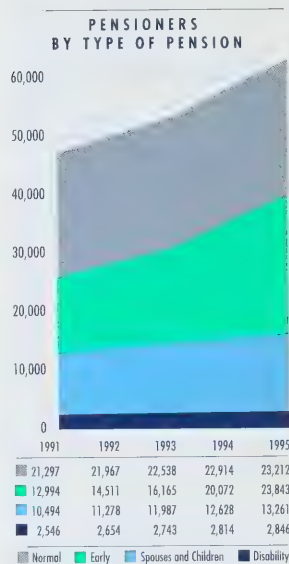
Ontario local government.

OMERS dealt with nearly twice the normal volume of retirement pensions. A total of 5,459 early and normal retirements were processed in 1995, of which 3,188 were Type 7 enhanced early retirement pensions funded by \$147 million of the allocated plan surplus. Plan membership declined in 1994 for the first time since its inception, and again, slightly, in 1995.

Pension Increase

A pension increase of 2.3%, equal to 100% of the Consumer Price Index (CPI) increase, was applied on January 1, 1996 to pensions that began on or before December 1, 1994. Pensions that began after December 1, 1994 and before December 1, 1995 were increased by a prorated amount.

The OMERS plan is indexed to 70% of the increase in the CPI for the year measured September to September. Further ad hoc increases are granted to top-up the increase to 100% of the increase in the CPI when the plan surplus permits.



The Actuarial Valuation

The OMERS actuarial valuation at December 31, 1994, conducted by Watson Wyatt Worldwide, indicates a surplus of \$1.2 billion in the basic OMERS plan. The effects of the funding allocated to the Board's Social Contract initiatives to the end of 1994 and of reduced or frozen wages in the local government sector, are reflected in this valuation. Social Contract and local government financial constraint may continue to affect the actuarial valuation for the next few years.

In 1989 the Board set up a Funding Stabilization Reserve (FSR). A portion of the surplus, 5% of the plan liabilities or \$847.6 million at December 31, 1994, is reserved as a hedge against periods of volatility. The FSR is maintained as a buffer against unexpected swings in the actuarial value of plan assets due to investment returns, or plan experience that differs from actuarial assumptions. The FSR is an important tool used to ensure contribution rate stability for the OMERS plan.

Managed Plans

OMERS has managed the pension plan for the Colleges of

Applied Arts and Technology (CAAT) since 1967. On January 1, 1995 the CAAT plan set up an independent pension board to manage its own administration and the investment of its assets.

Some \$2.4 billion in assets, which had been invested as part of the "pooled" OMERS Fund, were transferred to the new board. The bulk of the transfer took place in an orderly manner at the close of business on December 31, 1995. The balance of the transfer will occur in 1996.

OMERS has also managed the administration and assets of the pension plan for Ryerson Polytechnic University since 1965. Early in 1995 Ryerson began to administer its own plan, although OMERS will continue to invest the plan's assets of about \$271 million (as at December 31, 1995) as part of the commingled OMERS Fund.

Managing Operations

The rapid rate of change in the business world, ongoing globalization of the economy, and the breakneck speed with which technology evolves provide constant challenge. To meet the challenge, a new information systems strategy has been

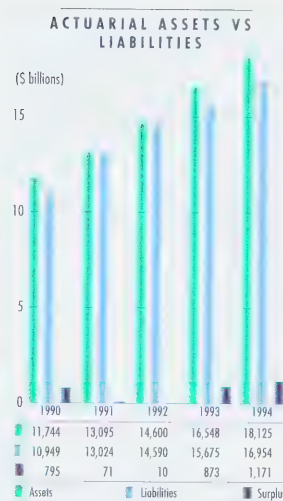
developed. It will help to provide the proper technological infrastructure to support long term business strategic initiatives.

Hardware and software systems that support industry open standards, as opposed to vendor-specific proprietary products, have been introduced, allowing OMERS to build or acquire systems-based business solutions that are widely available, easily maintained, and portable.

The move away from main-frame computers to the more flexible client/server computing environment offers systems that are more responsive to pension and investment business requirements.

The strategy was applied to the selection of a new financial accounting system as well as several investment decision-making tools. OMERS is also exploring an Internet business strategy, studying the advantages of this fast growing communications vehicle.

Service remains a priority for the OMERS plan. The goal of redeveloping information support systems is to significantly improve service to clients while maintaining operational cost effectiveness.



Programme budgeting was introduced in 1991 to better define operating business lines, and has proven helpful in effective planning, management, and cost control for the pension and investment programmes. OMERS participates in cost effectiveness measurement surveys for both programmes. The results of the surveys indicate that OMERS provides its services at a cost that is competitive with the benchmarks established for a pension plan with OMERS pension and investment characteristics. Based on the most recent survey results, unit operating costs per client have remained constant at \$74 for 1994 and 1995 for the pension programme. The investment programme costs fell from 15.9 basis points in 1994 to 15.6 basis points, or 15.6 cents per \$100, in 1995.

Use of a master custodian enables OMERS to economically achieve its investment-related administrative objectives. The master custodian service contract entered its fifth year in 1995, requiring a tendering process. The process resulted in future cost reductions for the maintenance of OMERS vast domestic and

international security holdings. OMERS works continually with the custodian to enhance state-of-the-art cash and securities processing services to investment managers.

Corporate Governance

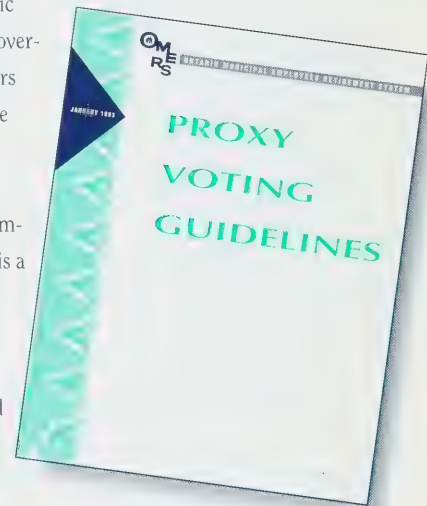
OMERS believes that effective corporate governance will result in better investment returns. As it is the Board's responsibility to meet the "pension promise" through the prudent investment of the Fund, OMERS has a particular interest in seeing that the companies in which it invests are run in the best long term interests of their shareholders.

Like other institutional investors, OMERS has relatively large minority shareholdings with commensurate voting power in many companies. To ensure effective corporate governance these extensive equity holdings are diligently voted in accordance with the formal set of proxy voting guidelines OMERS developed. The guidelines, which express the Board's beliefs and practices as shareholders, have been distributed to investment managers working with OMERS, as well as to the corporations in which OMERS has significant holdings.

OMERS uses voting influence to improve value for shareholders and to enhance returns. This is the basic premise of corporate governance, and, for providers of long term capital like OMERS, governance is important.

Fair valuation of companies "taken private" is a corporate governance issue. For example, in 1995 an American parent corporation offered to purchase those shares of a Canadian subsidiary that it did not already own. OMERS, the second largest shareholder, refused to tender shares at the offer price and negotiated a new offer of \$1.00 more per share, adding \$2.4 million to the Fund's return for the year. OMERS is now involved in litigation with another company in a similar dispute over the fair value of the company's shares in a "taking private" transaction.

OMERS has also used its voting power to counter corporate decisions that would have adversely affected shareholders. A stock option proposal that would have greatly diluted shareholders' equity was modi-



fied, reducing the potential dilution, when institutional investors intervened.

OMERS will continue to press for the corporate governance structure that best serves shareholders, and for shareholder rights.

The Fund

OMERS enjoyed a return of 14.2% in 1995, buoyed

by double-digit results in Canadian and international bonds and equities.

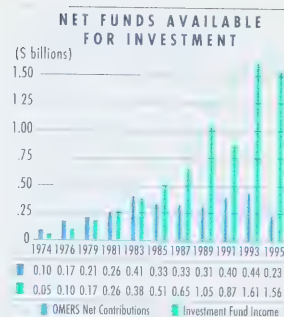
Real GDP growth in Canada slowed to 2.2% in 1995 while inflation remained below 2% and unemployment rates remained high. Slowing economic activity prompted the Bank of Canada and the U.S. Federal Reserve to lower interest rates during the year.

Falling interest rates pushed returns for Canadian and international bonds and equities up.

The referendum held in Quebec at the end of October alternately strengthened and weakened the Canadian dollar and temporarily interrupted the downward trend in interest rates. By the end of the year speculation over Quebec's near-future course had eased, comparative stability had returned to the market, and interest rates had resumed their downward trend.

Despite the political turbulence, the Canadian bond market recorded the highest returns among the markets of major industrialized countries. The Canadian equity market also fared well although the most spectacular equity market was undoubtedly the United States where high corporate earnings fuelled share price increases.

The Fund's asset allocation stressed international investments, reflecting a continued uneasiness with the sensitivity of Canadian capital markets to government fiscal restructuring and constitutional wrangling. The United Kingdom, Australia, and Hong Kong all produced excellent returns, although conversion



Consolidated Investment Assets

(1995 after separation of CAAT)

Market Value as at December 31 (000's)	1995	1994
Fixed Income Investments		
Cash and Short Term	\$ 876,473	\$ 965,678
Ontario Debentures	818,058	995,524
Marketable Bonds:		
• Canadian	2,890,714	2,450,687
• International	397,183	336,525
Private Placements – Debt	100,599	117,728
Mortgages:		
• Residential - Insured	534,735	622,281
• Non-residential	1,033,756	1,032,422
• Real Estate Held for Resale	85,567	39,485
Total Fixed Income Investments	\$ 6,737,085	\$ 6,560,330
Equity Investments		
Stocks		
Canadian:		
• Indexed	\$ 1,264,062	\$ 1,224,314
• Active	6,522,787	6,602,467
International:		
• Indexed	1,694,031	1,747,105
• Active	2,314,772	2,111,202
Total Stocks	11,795,652	11,685,088
Private Placements – Equities	352,980	249,677
Total Equity Investments	\$12,148,632	\$11,934,765
Real Estate	\$ 2,391,328	\$ 2,150,682
Total Investments at Market Value	\$21,277,045	\$20,645,777

1995 Returns vs Benchmarks

after separation of CAAT	\$ millions invested	% of Fund	1 year	4 years	10 years
Total OMERS	21,277.0	100%	14.2	10.6	9.9
Consumer Price Index			1.8	1.5	3.2
Consumer Price Index + 4.25%			6.0	5.7	7.4
Active Marketable Bonds	955.1	4.5%	26.9	12.2	12.4
ScotiaMcLeod L.T. Govt. Bonds/DS Barra Long Index			26.5	12.4	12.3
Core/Index Bonds	1,486.5	7.0%	27.0	12.5	—
Nesbitt Burns L.T. Govt. Bonds/DS Barra Long Govt. Bonds			26.6	12.3	—
Mortgages	1,654.1	7.8%	13.0	9.3	11.0
Nesbitt Burns 5 Year Bond/ DS Barra OMERS 5 Year Govt. of Canada Index			18.6	9.0	—
Private Placement-Debt	100.6	0.5%	35.9	12.3	13.0
Nesbitt Burns 5 Year Bond/ DS Barra OMERS 5 Year Govt. of Canada Index			18.6	9.0	—
Total Fixed Income	6,737.1	31.7%	18.3	9.8	11.2
ScotiaMcLeod Universe Bond Index			20.7	10.6	11.3
Core Fund	4,661.4	21.9%	14.7	11.6	9.3
TSE 300			14.5	10.6	8.3
Small Cap	329.8	1.5%	16.8	17.9	—
Nesbitt Burns Small Cap weighted			13.9	14.1	—
TSE 300 Index Fund	1,004.5	4.7%	14.5	—	—
TSE 300			14.5	10.6	8.3
Externally Managed Canadian Stocks	1,791.1	8.4%	15.2	8.9	—
TSE 300			14.5	10.6	8.3
Total Canadian Stocks	7,786.8	36.6%	14.9	11.1	8.7
TSE 300			14.5	10.6	8.3
Private Placement-Equity	353.0	1.7%	24.2	11.0	7.4
TSE 300			14.5	10.6	8.3
International Stocks	4,008.8	18.8%	14.6	15.2	12.2
Salomon Global BMI (ex-Canada)			19.1	15.4	—
Real Estate (income producing office and retail properties only)	2,503.7	11.8%	1.7	3.9	—
Russell Canadian Office & Retail Property Index			4.4	(1.3)	—

Not all segments of the total Fund are represented in this table.

to Canadian dollars, which rose by about 2¢ against the US dollar over the year, diminished returns slightly. Growth in Europe was uneven; Germany fared reasonably well while France and Italy lagged well behind. Japan's economy, still dealing with the aftermath of the collapse in real estate values and continued political difficulties, remained rather stagnant.

Asset Mix Management

The decision that has the greatest impact on investment returns is the allocation of assets among the various investment classes. OMERS policy is to have 25 to 35% of the Fund invested in Canadian and international fixed income instruments, 50 to 60% in Canadian and international equities, and 10 to 15% in real estate. The actual asset mix varies within these ranges as market values and cash flow fluctuate. These variations can have either a positive or a negative effect on the Fund's total return.

Although the OMERS Fund saw a return of 14.2% in 1995, the fact that OMERS "underweights" the United States in international investments and an unusually high

exposure to lower yielding money market securities held the Fund's total return down.

The U.S. and Canadian markets are very similar in nature and performance. In order to achieve greater diversification, OMERS generally places less emphasis on the U.S. than traditional international indices do. Instead, the Fund invests more in dissimilar markets. Strong growth in U.S. markets in 1995, reflected in industry indices, had less effect on the Fund's returns.

The planned transfer of assets to the new CAAT pension plan board necessitated holding a high ratio of cash for the early part of the year. Once the date of the proposed transfer had been settled OMERS was able to reallocate these assets to higher yielding markets, largely through the use of derivative instruments. This "cash securitization" is an important way in which the Fund uses derivatives to add further discipline to controlling asset mix.

At year-end, immediately following the transfer of assets to CAAT, the Fund's actual asset mix consisted of 4% short term deposits and money market instruments, 28% other Cana-

dian and international fixed income instruments, 57% in Canadian and international equities, and 11% in real estate. At market value, 25% of these total Fund assets were invested in international bonds, equities, and derivative instruments.

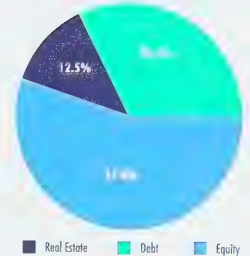
Fixed Income

Fixed income investments, comprising Canadian and international bonds, mortgages, commercial loans and cash or money market instruments, formed 32% of the assets of the Fund at year-end.

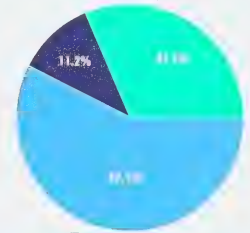
In spite of the unusually high ratio of cash to long term investments discussed above, bond returns were healthy in a year that favoured bond holders.

ASSET ALLOCATION

Target
using midpoint in target range

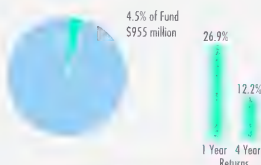


Actual
as at December 31, 1995

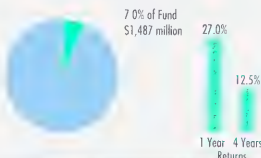


Cash & Short term	4.1%
Bonds	15.5%
Ontario Debentures	3.8%
Mortgages	7.8%
Private Placements Debt	0.5%
Cash	8.8%
Private Placements Equity	1.7%
Net Total Real Estate	11.2%

ACTIVE MARKETABLE BONDS



CORE/INDEX BONDS



The Canadian bond market recorded the highest returns among the markets of major

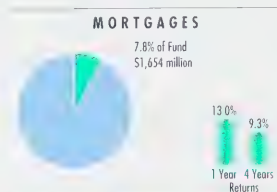
industrialized countries. The Fund holds Canadian bonds in two portfolios: the Canadian core bond portfolio holds federal and provincial government bonds, while the more actively traded Canadian active bond portfolio adds municipal and commercial to federal and provincial bonds. Both portfolios did well in 1995.

The international bond portfolio, which holds foreign government bonds, fared well in its first full year of operation. The portfolio is managed with emphasis first on country and currency allocation, and then interest rate movement.

The money market and foreign exchange fund was expanded in 1995 to accommodate increased activity in the international bonds and derivatives areas. In addition to serving as a banker to other OMERS investment activities, this fund manages cash aggressively. The strategic management of cash helped to improve returns despite the unusually large cash reserves held to facilitate the transfer of assets from the OMERS Fund to the CAAT Pension Plan.

The supply of mortgage funds in the marketplace has increased while the develop-

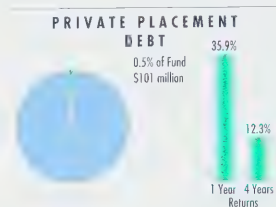
ment of new commercial projects and high quality refinancings lagged behind the supply of capital. Competition for a limited supply of quality business has caused significant declines in lending rates and this trend is expected to continue for some time.



Despite market conditions, OMERS was able to place \$155 million in new mortgages and renewals at premium yields in 1995 while continuing a policy of investing in high yielding, quality commercial mortgages. The quality and performance of the mortgage portfolio remains very strong. Continued success in developing new business will largely depend on the availability of high quality investments with acceptable yields.

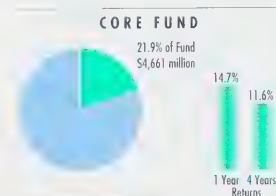
Competition in private debt was once again intense. Spreads were the narrowest they have been for many years, and would not compensate OMERS for the extra risk that corporate credit would have over government credit. The portfolio's investment activity

was therefore very low in 1995, although the debt portfolio increased its credit quality.



Equities

The Canadian core fund invests in the securities of companies with a net worth exceeding \$150 million. The fund's excellent performance for the year was attributable, in part, to a higher concentration than usual in metals and minerals, oil and gas, and consumer products, all of which did well in 1995.



The small capitalization fund, one of the largest of its kind in Canada, is committed to its disciplined approach to investing in sound, small companies with a moderate risk profile. This approach has worked well for OMERS. The exceptionally strong performance of the technology and

communications sectors, up 61.3% in 1995, contributed to the small cap portfolio's healthy performance, although, because of the high risk, often speculative, nature of technology stocks these sectors are underweighted.



The Canadian indexed equities fund is invested in a large number of companies in a wide range of Canadian economic sectors to achieve broad diversification. The portfolio achieved its objective of generating the TSE 300 total return while maintaining low performance volatility, or "tracking error," in 1995. Such low risk strategies as dividend reinvestment plans, call option overwriting and anticipation of changes to the composition of the index were also used to add value and enhance performance.

The use of external managers offers the Fund access to unique management styles and increased diversification. The Canadian externally-managed active programme also stresses growth. OMERS

staff monitor the programme to ensure faithfulness to OMERS investment policies and the integrity of the chosen management style.



Among the Fund's international equities portfolios, the two internally-managed U.S. index funds performed very well as returns in the U.S. burgeoned. The S&P 500 index fund which focuses on larger capitalization stocks, ended the year with \$1,294 million invested, and a return of 33.7%.

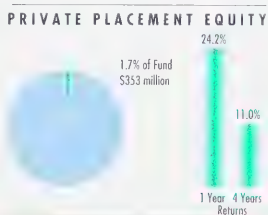
The S&P Mid-cap index fund, with \$186 million invested, saw a return of 28.6%. In 1996 OMERS will also engage active external managers to further enhance our U.S. returns in those areas where active managers have demonstrated an ability to outperform the index.

The non-North American externally-managed investment programme has focussed on broad European and Pacific basin mandates since its inception in 1990. Early in 1995 the focus shifted to more

specialized active management, using expertise specific to the countries or regions in which the Fund has an interest. Two dedicated Japan-only active managers, and active managers for the European, Pacific rim and emerging markets have been engaged. The specialist approach is expected to produce better returns as this programme matures.



The private equity portfolio profited as some of its investments went public in a healthy Initial Public Offering market. Several holdings in the technology sector were sold at advantageous prices, although stronger markets reduced opportunities for new investment in this area. A slowing North American economy and high valuations may further reduce new investment opportunities in 1996.



OMERS continues to be selective in order to maintain a high quality portfolio.

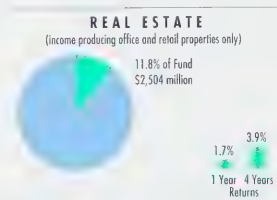
Real Estate

OMERS Realty Corporation (ORC) is a wholly-owned subsidiary of OMERS, managing all real estate transactions on behalf of the Board. The realty group has created, and maintains, a high-quality diversified portfolio of real estate properties with an investment horizon of 10 to 20 years. Preferred investments are in centrally located projects, in major urban markets, and constructed using modern technology. The portfolio's holdings are diversified by geography, function, and development stage.

The realty corporation holds a direct interest in 13.4 million square feet out of 19.9 million square feet of gross leasable area in 38 properties. Fifteen of these properties are wholly owned by ORC and the balance

are held in common ownership with other investors. The properties are well leased, 95.7% on average, with the regional shopping centres 98.4% leased.

In addition OMERS Realty holds a number of properties, valued at \$91 million, for development.



Acquisitions in 1995 included the Bow Valley Square complex in downtown Calgary and the balance of Les Promenades de la Cathédrale and Place de la Cathédrale (an office and shopping complex in Montreal), as well as Scarborough Town and Yorkdale Shopping Centres in the Toronto area, bringing our interest to 100% of each of these properties. OMERS also sold its interest in Pickering Town Centre.

Managing Change

Managing change is the challenge facing the OMERS plan and its participating members and employers.

Local governments in Ontario continue to anticipate, experience, and cope with changing circumstances. OMERS, through its governance proposals, through policy initiatives, and in its commitment to service, continues to adapt to the changing needs of plan participants.

Discipline in investment and in management strategy and practices, always important, are never more so than in periods of change. OMERS manages the plan to maintain stability in contribution rates and to meet its pension promise.

ACTUARIAL COST CERTIFICATE

As at December 31, 1995

For the Ontario Municipal Employees Retirement Board



The most recent actuarial valuation of the benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1994 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Standard of Practice for Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The actuarial valuation of OMERS as at December 31, 1994 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion, the data are sufficient and reliable for the purposes of actuarial valuation.

In our opinion, the assumptions adopted for our actuarial valuation of OMERS are appropriate, and the methods employed are consistent with sound actuarial principles. Nonetheless, the experience of OMERS in the future may be different from the actuarial assumptions, and may result in gains or losses which will be revealed in future actuarial valuations.

The results of the actuarial valuation of the registered pension plan portion of OMERS disclosed total Actuarial Liabilities of \$16,953.560 million in respect of benefits accrued for service prior to December 31, 1994, including the effect of an ad hoc adjustment to pensions as at January 1, 1995. The Actuarial Assets at that date were \$18,124.899 million indicating an actuarial surplus of \$1,171.339 million, of which \$847.636 million has been allocated to a Funding Stabilization Reserve by the Board. In addition, there was a net actuarial liability in respect of benefits in excess of the Income Tax Act limits on registered plans of \$150.196 million.

The results of the actuarial valuation also indicated that the existing levels of member and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1995 taking into account amendments made to the Plan up to December 31, 1995. Further, we have calculated the Actuarial Assets at December 31, 1995.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1995 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted

THE WYATT COMPANY

A handwritten signature in black ink that reads 'Martin Brown'.

Martin J.K. Brown, F.I.A.

Fellow, Canadian Institute of Actuaries

March 22, 1996

AUDITOR'S REPORT

To the Ontario Municipal Employees Retirement Board

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1995 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.



We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1995 and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Toronto, Canada

March 22, 1996

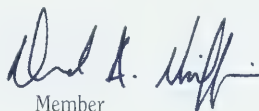
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF NET ASSETS

At Market Value, as at December 31 (000's)	1995	1994
ASSETS		
Investments (note 2)	\$ 21,277,045	\$ 20,645,777
Long-term receivables (note 4)	41,413	49,147
Contributions receivable	74,881	84,029
Accrued income	381,345	387,920
Total Assets	21,774,684	21,166,873
LIABILITIES		
Due to administered pension funds (notes 5 & 11)	344,901	2,463,316
Accrued liabilities	217,087	314,758
Total Liabilities	561,988	2,778,074
NET ASSETS (NOTE 6)	\$ 21,212,696	\$ 18,388,799

Signed on behalf of the Board,


Member


Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

At Market Value, as at December 31 (000's)	1995	1994
INCREASES IN NET ASSETS		
Contributions (note 7)	\$ 875,605	\$ 879,401
Net investment income (note 8)	1,362,617	1,483,845
Unrealized market appreciation of investments	1,264,332	0
Total Increase	3,502,554	2,363,246
DECREASES IN NET ASSETS		
Unrealized market depreciation of investments	0	1,171,241
Benefits (note 9)	643,337	546,119
Administrative expenditures (note 10)	35,320	35,224
Total Decrease	678,657	1,752,584
INCREASE IN NET ASSETS	2,823,897	610,662
Net assets at beginning of year	18,388,799	17,778,137
NET ASSETS AT END OF YEAR	\$ 21,212,696	\$ 18,388,799

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1995

GENERAL

The Ontario Municipal Employees Retirement System (OMERS) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the *Ontario Municipal Employees Retirement System Act* (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the *Ontario Pension Benefits Act*, Registration #C006725.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual contributory earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The *Pension Benefits Act* (PBA) of Ontario requires that participating employers fund the benefits determined under the plan. In accordance with the PBA the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability waivers and pensions, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the OMERS Act and Regulation or by contacting OMERS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basic of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

Consolidation

The consolidated financial statements include the accounts of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and OMERS proportionate share of the assets, liabilities, and operating income of real estate properties jointly owned with others.

Investments

Investments are recorded as of the trade date and are stated at market value. The change in the difference between market value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets as unrealized market appreciation/depreciation of investments.

Market values of investments are determined as follows:

- i) Short-term deposits are recorded at cost which approximates market value.
- ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market values are not available, estimated values are calculated using discounted cash flows based on current market yields, comparative securities, independent asset appraisals and financial analysis.
- iii) Real estate, comprised primarily of income producing properties, is valued based on appraised values determined annually by an independent appraiser in accordance with generally accepted appraisal practices and procedures, based mainly on discounted cash flows. In performing the appraisals, certain assumptions are made with respect to future economic conditions and rates of return. Jones Lang Wootton Canada Inc. is the firm of independent appraisers used.
- iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk.
- v) Equity index futures, bond and equity index swaps and forward foreign exchange contracts are valued at year-end quoted market prices.

Investment income, which is recorded on the accrual basis, includes dividends, interest income, and real estate operating income as well as capital gains and losses which have been realized on investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1995

Foreign Currency Translation

The market values of foreign currency denominated investments included in the statement of net assets are translated into Canadian dollars at the year-end rate of exchange. Gains and losses arising from this translation are included in unrealized appreciation/depreciation of investments.

Foreign currency denominated transactions as well as cost amounts included in the financial statements are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

Derivative Financial Instruments

The Fund uses derivative financial instruments when appropriate in the administration of its asset/liability management and to assist in the management of financial risks, including foreign exchange risks.

NOTE 1 - RESPONSIBILITIES OF THE ACTUARY AND EXTERNAL AUDITORS

The actuary is appointed by the Board of OMERS. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are appointed by the Board. Their responsibility is to report to the Board regarding the fairness of presentation of OMERS financial position, results of operations and changes in financial position as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuary for the actuarial liabilities as disclosed in the notes to the financial statements in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

NOTE 2 - INVESTMENTS

(000's)	1995		1994	
	Market Value	Cost	Market Value	Cost
Cash and short-term deposits	\$ 876,473	\$ 876,473	\$ 965,678	\$ 965,678
Canadian bonds and debentures	3,708,772	3,366,451	3,446,211	3,601,248
Non-Canadian bonds	397,183	383,684	336,525	331,545
Private debt	100,599	107,126	117,728	141,552
Mortgages	1,654,058	1,551,663	1,694,188	1,661,888
Canadian equities	7,786,849	6,245,921	7,826,781	6,782,021
Non-Canadian equities	4,008,803	3,174,752	3,858,307	3,213,857
Real estate	2,391,328	2,801,224	2,150,682	2,359,417
Resource properties	41,790	44,661	39,700	45,761
Canadian private equities	109,184	105,260	39,111	48,044
Non-Canadian private equities	202,006	154,035	170,866	146,542
	\$ 21,277,045	\$ 18,811,250	\$ 20,645,777	\$ 19,297,553

Canadian bonds and debentures include Province of Ontario debentures having a market value of \$818,057,772 and a cost of \$741,605,098 (1994 - market \$995,524,000, cost \$1,014,700,000), bearing a weighted average interest rate of 8.97% (1994 - 9.18%), and maturing at various dates through December 31, 2006 (\$182,250,000 matured December 31, 1995).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1995

NOTE 2 - INVESTMENTS (continued)

At December 31, 1995, the Fund held the following investments each having a market value or cost exceeding 1% of the market value or cost of total investments:

(000's)	Number of Investments	1995 Aggregate	
		Market Value	Cost
Canadian equities	3	\$ 809,281	\$ 658,219
Real estate properties	4	991,765	1,057,909
Canadian bonds and debentures	2	537,247	477,313
	9	\$ 2,338,293	\$ 2,193,441

Real estate investments above include ownership interests in the following properties, all of which are located in Toronto, Ontario: BCE Place (Canada Trust Tower); One Financial Place; Scarborough Town Centre; and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through joint ventures. The market value of OMERS proportionate share in these assets was \$1,186,736,000 at December 31, 1995 (1994 - \$1,621,565,000). The net income earned from OMERS investment in joint ventures was \$83,613,000 for the year ended December 31, 1995 (1994 - \$63,433,000) and is included in net investment income from real estate.

OMERS has guaranteed certain of the obligations of its joint ventures and is contingently liable for the obligations of its associates in certain joint venture developments. The assets of the joint ventures are available and are sufficient for the purpose of satisfying such obligations.

NOTE 3 - DERIVATIVE FINANCIAL INSTRUMENTS

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative instruments, but does not expect any counterparties to fail to meet their obligations. Where appropriate, master netting agreements are arranged or collateral is obtained. The Fund deals with only highly rated counterparties, normally major financial institutions. The credit risk exposure of derivative instruments is represented by the replacement cost of contracts with a positive fair value at the reporting date. The credit risk amounts represent the maximum amount that would be at risk if the counterparties failed completely to perform under the contracts and any available collateral proved to be of no value.

(000's)	1995		1994	
	Notional Value	Replacement Cost	Notional Value	Replacement Cost
Equity swap contracts				
Receive-floating index rate	\$ 290,000	\$ 19,749	—	—
Pay-floating interest rate	\$ (290,000)	\$ (2,505)	—	—
Equity index futures contracts	\$ 472,594	\$ 5,942	\$ 116,317	\$ 5,083
Forward foreign exchange contracts	\$ 2,436,974	\$ (4,601)	\$ 231,549	\$ 809

All derivative investments mature within one year.

NOTE 4 - LONG-TERM RECEIVABLES

Under the terms of the OMERS Act and Regulation certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long-term receivables to be paid, with interest, over a period not to exceed fifteen years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1995

NOTE 5 - DUE TO ADMINISTERED PENSION FUNDS

The managed pension plans which form part of the Fund, are administered on behalf of The Board of Trustees of The Colleges of Applied Arts and Technology (CAAT), the Ryerson Polytechnic University, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

A new management agreement for the CAAT Pension Plan was approved by the Lieutenant Governor in Council by Order-in-Council on December 21, 1994. This established a new board to administer the CAAT Pension Plan, including the CAAT Pension Fund effective January 1, 1995.

Under the terms of the management agreement, administration of contributions of the CAAT Pension Plan was assumed by the new CAAT Board as of January 1, 1995. The portion of the commingled investments of the Fund attributable to the CAAT Pension Fund continued to be invested in the Fund during 1995. Withdrawals from the Fund occurred throughout the year to pay for CAAT pension and member termination benefits.

The CAAT Board and OMERS signed a transfer agreement on November 17, 1995. This agreement established the procedures and conditions under which CAAT would receive its portion of the commingled investments of the Fund.

Under the terms of the CAAT management agreement and the transfer agreement, OMERS transferred cash and investments to the CAAT Board, effective with the close of business on December 31, 1995, in the amount of \$2,398,847,000. Investments and Due To Administered Pension Funds have been reduced accordingly. The total value of assets to which CAAT is entitled is \$2,504,542,000. The balance of \$105,695,000 is to be paid on final settlement, generally with interest at prime, and is included in Due To Administered Pension Funds. OMERS is authorized to recover from the asset transfer value its expenses for completing all aspects of the asset transfer. Completion of the transfer is subject to due diligence procedures by the CAAT Board which may result in adjustments to the above amounts. Any adjustment would not be material.

A new management and custodial agreement for the Ryerson Retirement Pension Plan was approved by the Lieutenant Governor in Council on November 22, 1995. The agreement was implemented effective April 1, 1995. This established new trustee, custodial and administration arrangements. Under the terms of the agreement OMERS discontinued its responsibilities as trustee and pension plan administrator, and continued as investment manager and custodian. A significant portion of the Fund of the Ryerson Retirement Pension Plan continues to be invested in the OMERS commingled investment fund.

NOTE 6 - NET ASSETS

The actuarial valuation was conducted as of December 31, 1994 and has been extrapolated to December 31, 1995. The projected unit credit method, prorated on services, and certain funding assumptions were used in the valuation and the extrapolation.

Investments are valued at market value as at December 31, 1995 for financial statement purposes, as disclosed in note 2. The actuarial value of net assets has been determined using an actuarial formula based on market values over the last five year period. The objective of this process is to smooth out the effects of market volatility by averaging market values while reflecting long-term historical investment trends.

The actuarial present value of accrued pension benefits includes benefits for active members, pensioners and deferred vested pensioners.

The extrapolation of the actuarial valuation to December 31, 1995 has taken into account amendments made to the plan up to December 31, 1995. The 1994 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1994.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1995

NOTE 6 - NET ASSETS (continued)

(000's)	1995	1994
Market value of net assets at end of year	\$ 21,208,298	\$ 18,385,913
Market value adjustment for actuarial purposes	(874,298)	(261,014)
Actuarial value of net assets at end of year	20,334,000	18,124,899
Actuarial present value of accrued pension		
benefits at beginning of year	16,954,000	15,674,764
Ad hoc increases to pension benefits	40,000	3,000
Change in actuarial assumptions	0	245,312
Interest accrued on benefits	1,492,000	1,385,764
Benefits accrued	1,068,000	1,060,998
Benefits paid	(643,000)	(546,103)
Experience gains	(646,000)	(870,175)
Actuarial present value of accrued pension		
benefits at end of year	18,265,000	16,953,560
Net liability of full earnings pension plan	203,000	150,196
	18,468,000	17,103,756
Excess of actuarial value of net assets over actuarial		
present value of accrued pension benefits	\$ 1,866,000	\$ 1,021,143

NOTE 7 - CONTRIBUTIONS

(000's)	1995	1994
Members	\$ 428,381	\$ 428,114
Employers, current service	428,381	428,114
Employers, long-term receivables and interest		
thereon (note 4)	5,366	9,292
Transfers from other pension plans	5,899	6,397
Other purchased service	6,492	7,345
Unreduced early retirement benefits	1,086	139
	\$ 875,605	\$ 879,401

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1995

NOTE 8 - NET INVESTMENT INCOME

(000's)	1995	1994
Short-term deposits	\$ 56,036	\$ 31,795
Canadian bonds and debentures	337,819	322,645
Non-Canadian bonds and debentures	28,091	8,841
Private debt	11,295	23,420
Mortgages	149,405	170,252
Canadian equities	192,118	202,691
Non-Canadian equities	76,721	73,230
Real estate	187,595	152,470
Resource properties	(363)	239
Canadian private equities	620	1,405
Non-Canadian private equities	1,322	3,886
	1,040,659	990,874
Realized capital gains	515,459	703,950
	1,556,118	1,694,824
Less income credited to:		
Administered pension funds	(182,003)	(198,296)
Provision for supplementary retirement benefits	(11,498)	(12,683)
	\$ 1,362,617	\$ 1,483,845

NOTE 9 - BENEFITS

(000's)	1995	1994
Members' pensions	\$ 570,071	\$ 490,704
Members' contributions plus interest refunded	66,766	50,715
Transfers to other pension plans	6,500	4,700
	\$ 643,337	\$ 546,119

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1995

NOTE 10 - ADMINISTRATIVE EXPENDITURES

a) Operating Expenses

(000's)	1995	1994
Personnel services	\$ 18,571	\$ 18,181
Transportation and communication	1,085	1,052
Actuarial services	437	465
Audit services	317	300
Legal services	307	270
Other professional services	168	444
Occupancy costs and municipal taxes	4,360	4,153
Systems development purchased services	2,280	2,334
Other purchased services	4,790	4,793
Equipment and depreciation	1,987	2,196
Materials and supplies	1,018	1,036
	\$ 35,320	\$ 35,224

b) Compensation

The following information is furnished in compliance with the *Public Sector Salary Disclosure Act, 1996*.

Employee	Position Held	1995 Compensation*	Taxable Benefits
OMERS			
M. Beswick	Senior Vice President, Pensions	\$ 153,991	\$ 499
E. Funston	Vice President, Pension Administration	\$ 120,954	\$ 366
W. Gauthier	Vice President, Pension Policy & Communications	\$ 100,663	\$ 320
W. Gladstone	Senior Vice President, Finance & Administration	\$ 161,698	\$ 499
G. Inamoto	Portfolio Manager, Core Fund	\$ 113,167	\$ 303
D. Leckman	Senior Portfolio Manager	\$ 132,180	\$ 354
I. Lee	Vice President, Bonds & Cash Management	\$ 159,443	\$ 462
D. Markovich	Vice President, Fund Management	\$ 153,242	\$ 496
M. McKenzie	Vice President, Mortgages	\$ 125,324	\$ 405
H. Rachfalowski	Vice President, Portfolio Management	\$ 165,837	\$ 496
D. Richmond	President & CEO	\$ 200,000	\$ 8,162
R. Sillcox	Senior Vice President, Investments	\$ 269,885	\$ 615
C. Vaillancourt	Vice President, Information Services	\$ 119,643	\$ 400
J. Williams	Senior Vice President, Human Resources	\$ 119,881	\$ 400
S. Wiseman	Portfolio Manager, External Funds	\$ 108,434	\$ 322
OMERS Realty Corporation			
R. Churcher	Vice President, Properties	\$ 137,500	\$ 9,429
P. Colangelo	Executive Vice President	\$ 356,250	\$ 9,858
J.M. Knowlton	Senior Vice President, Finance & Treasurer	\$ 202,344	\$ 9,620
C.J. Magwood	President and Chief Executive Officer	\$ 588,213**	\$ 12,858
J.R. Morrison	Senior Vice President, Properties	\$ 202,344	\$ 9,620
J.C.C. Wansbrough	Chair of the Board	\$ 108,005	

*compensation includes salary, bonuses, and other payments

**excludes 1995 payment of \$110,000 long-term incentive bonus earned in 1991 and 1992

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1995

NOTE 11 - SIGNIFICANT EVENT

The transfer of cash and investments to the CAAT Board is effective as at December 31, 1995 (note 5). The effect of this transfer on the Fund is:

(000's)	Pre-CAAT Transfer	CAAT Entitlement	Post-CAAT Transfer
Investments			
Cash and short-term deposits	\$ 1,536,493	\$ 660,020	\$ 876,473
Canadian bonds and debentures	4,141,694	432,922	3,708,772
Non-Canadian bonds and debentures	442,309	45,126	397,183
Private debt	100,599	—	100,599
Mortgages	1,654,058	—	1,654,058
Canadian equities	8,653,246	866,397	7,786,849
Non-Canadian equities	4,403,185	394,382	4,008,803
Real estate	2,391,328	—	2,391,328
Resource properties	41,790	—	41,790
Canadian private equities	109,184	—	109,184
Non-Canadian private equities	202,006	—	202,006
	23,675,892	2,398,847	21,277,045
Amounts not distributed at December 31, 1995		105,695	(105,695)
	\$ 23,675,892	\$ 2,504,542	\$ 21,171,350

SENIOR OFFICERS AND MEMBERS OF THE 1996 BOARD

BOARD MEMBERS

Chair

Joanne Fulkerson
Senior Manager, Human Resources
Thunder Bay Hydro, Thunder Bay

1st Vice Chair

David Griffin
Administrator
Police Association of Ontario, Mississauga

2nd Vice Chair

Roger Richard
Superintendent of Business
The Lennox & Addington County
Board of Education
Napanee

Past Chair

Gary Mugford
Firefighter
City of Toronto

Nancy Bardecki
Director, Municipal Finance Branch
Ministry of Municipal Affairs and Housing

Fayne Bullen
Alderman
City of Orillia

Anne Dubas
Public Health Nurse, Dept. of Public Health
City of Toronto

Wasim Hassan
Director Utility Practices
Municipal Electric Association
Toronto

Susan O'Gorman
Public Health Nurse,
York Regional Public Health Dept.
Newmarket

Don Ross
Retiree
Sarnia

James Sherlock
School Trustee
Halton Separate School Board
Hamilton

There are two vacant positions.

Executive Committee

Chair

Joanne Fulkerson

1st Vice Chair

David Griffin

2nd Vice Chair

Roger Richard

Immediate Past Chair

Gary Mugford

Investment Committee

Chair

Fayne Bullen

Vice Chair

Gary Mugford

Management Committee

Chair

Wasim Hassan

Vice Chair

Don Ross

Pension Committee

Chair

Susan O'Gorman

Vice Chair

Don Ross

SENIOR OFFICERS

Dale E. Richmond
President and CEO

Michael Beswick
*Senior Vice President
Pensions*

Wayne Gladstone
*Senior Vice President
Finance & Administration*

Robert Sillcox
*Senior Vice President
Investments*

Jane Williams
*Senior Vice President
Human Resources*

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
KPMG

Legal Advisor
Osler, Hoskin & Harcourt

Medical Advisor
Dr D. Lewis

CA20N
TR20
-AS6

ME
RS

ONTARIO MUNICIPAL
EMPLOYEES RETIREMENT BOARD

GOVERNANCE

direction and accountability are
very important to the effective
management of OMERS and to
enhanced investment returns.

1995

HIGHLIGHTS



One University Avenue, Suite 1000, Toronto, Ontario M5J 2P1
(416) 369-2400, 1-800-387-0813

ANNUAL REPORT

1996

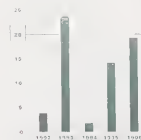
CA26N
TR20
-A56

ONTARIO
MUNICIPAL
EMPLOYEES
RETIREMENT
BOARD

Performance

FUND

Fund Returns by Year



The total Fund return for the year was 19.9%, reflecting the five-year average annual rate of return of 14.4%, which is higher than the target return. With a low annual rate of inflation, this represents a more than adequate return on investments.

Fund earnings are essential to the plan's success in a number of areas, including: the maintenance of stable contribution rates, full pension indexing; and the long-term financial health of the plan.

By the end of 1996 the OMERS Fund had grown to \$25.6 billion.

THE PLAN SURPLUS

The actuarial valuation of the plan at December 31, 1995 indicates a surplus of \$1.449 billion, giving the plan a funded ratio of 108%. The plan surplus is projected to continue to grow at a very fast rate for the next few years, and to exceed the maximum allowed under the *Income Tax Act*.

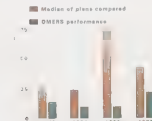
The Board discussed at length the growth in the surplus, and early in 1997 sent proposals for its management to the Ontario Government for approval.

Actuarial Valuation Results (\$ billions) as at December 31



MANAGING WELL

Retirement Benefits Calculations (in business days)



Since 1992, OMERS has been engaged in a number of "best practices" initiatives, monitoring and continually improving plan performance. OMERS was a leader in the establishment of Quantitative Service Measurement (QSM), a forum for six major Canadian public sector pension plans. The group compares costs, service levels, and operations, and identifies cost reductions and service improvements. OMERS also compares its investment operations with a large group of Canadian and American pension funds. Operating efficiency adds value to the Fund.

RESPONSIVE MANAGEMENT

Ontario's local government environment continues to change.

In response, the Board reintroduced flexible, employer-purchased early retirement benefits to help members and employers deal with restructuring.

The Board has proposed to the Ontario Government, or is negotiating with other plans in Ontario, additional measures to help groups of members displaced through "disentanglement" and "divestment."

OMERS is preparing to cope with a wave of employer amalgamations expected in 1997.



ONTARIO MUNICIPAL EMPLOYEES
RETIREMENT SYSTEM

The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 by the Ontario Government as a multi-employer pension plan for employees of local governments in Ontario. A total of 1,131 municipalities, boards, school boards and commissions participate in the plan.

Managed by a 13 member Board appointed by the Ontario Government, OMERS is operated by and for municipal employees and employers. Five members of the Board are employees of local governments, one is a pensioner, four are officers of the participating employers, two are elected or appointed officials of municipalities or local boards, and one member is a Provincial official.

OMERS is a defined benefit pension plan financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund.

In keeping with our mandate, the OMERS vision is as follows.

- OMERS will be an autonomous, self-funded pension plan managed by and for its active members, pensioners and employers.
- OMERS will provide a choice of pension options for employees engaged in the delivery of local government services.
- OMERS will keep its pension promise through prudent investments and cost-effective management.

Working together for your retirement

The OMERS Fund achieved a total return of 19.3% in 1996, fuelled by continued growth in equity markets in most of the world. Our four-year average annual rate of return of 14.4% exceeds the targeted performance required to adequately fund the plan.

For OMERS, performance is about more than an excellent investment return for the year. Performance means achieving complex and integrated goals in all areas of plan management: managing the plan in a cost-effective manner; meeting the diverse pension needs of our members; helping members and employers respond to the changing local government environment; and continuously improving the service we provide to our community of plan participants.

We also measure our performance against our goals. We look at how our performance compares to that of other major plans, how well we adapt to changing environments, our ability to effectively plan for the future, and a host of other factors. In virtually every category, our performance over the past fiscal year has shown consistent improvement.

A prudent approach to plan financing has allowed OMERS to keep contribution rates stable, improve plan benefits, and maintain a cushion against unexpected events. Excellent investment returns over the past few years, coupled with wage stability in the local government sector, have produced an even greater plan surplus than had been forecast. In 1996, the OMERS Board discussed at length the implications of the growth in the surplus and consulted member and employer representatives about its management.

Managing our pension and investment operations cost-effectively enhances our financial performance. OMERS continually reviews the “best practices” of similar Canadian pension plans to help monitor costs and improve processes and service standards. Our investment operations’ costs are compared with those of a large group of Canadian and American defined-benefit pension funds. Our costs are lower than the industry average, adding, in comparison to the benchmark, value to the OMERS Fund.

While the Fund’s investment performance is tailored to provide long-term, stable growth to meet our pension liability, Ontario’s local government environment continues to change, putting new demands on the OMERS plan. Responsiveness and flexibility are important to meeting the needs of plan members and employers in this period of upheaval in the structure of local government.

The Board reintroduced flexible, employer-purchased early retirement benefits in 1996. We are negotiating with Ontario’s other public sector pension plans to arrange for the transfer of pension credits between plans when employees are transferred in a “divestment” or “disentanglement.” In addition, we have proposed changes to allow pension portability between public and private sector plans.

Our service priority is the monthly payment of pensions and the calculation and payment of new pensions. We take pride in the fact that the monthly pension payroll has always been processed and paid on time. Our response time in carrying out these and other member transactions and services compares favourably with the industry average, but we continue to seek ways to improve service delivery.

OMERS is Canada's third largest public service pension plan, and has a role to play in advocating the interests of plan participants in matters of public policy. We participate in the discussion of such diverse public issues as the restructuring of the Canada Pension Plan, appropriate guidelines for the protection of shareholders' interests, and the regulation of the pension industry. In 1996, we invited plan participants to share their views on CPP reform with the commission reviewing the issue, and thousands joined the Board in expressing their ideas.

Performance excellence includes the successful management of many issues, many interests, and all aspects of the OMERS pension plan. Performance is a constant balancing of competing needs and resources. It requires the clear vision, sound leadership, and responsible decision-making the Board has demonstrated over the past 35 years.



DAVID A. GRIFFIN

Chair



DALE E. RICHMOND

President and CEO

1996 PERFORMANCE

THE FUND

The OMERS Fund's investment performance is tailored to provide long-term, stable growth to meet the pension liability. Fund managers strive to provide a good, steady rate of return on investments while minimizing risk. This balanced approach continued to provide excellent returns in 1996.

Returns by Asset Class and their Benchmarks

	\$ millions	% of	1 year	4 year	10 year
	invested	Fund	%	%	%
OMERS Fund	25,616.0	100%	19.3	14.4	10.5
Consumer Price Index			2.2	1.5	3.0
Consumer Price Index + 4.25% (target return)			6.4	5.7	7.2
Fixed Income	8,553.6	33.4%	11.3	10.4	10.9
DS Barra/Scotia McLeod Universe Bond Index			12.2	11.2	11.0
Canadian Equities	10,019.5	39.1%	32.3	19.5	11.0
TSE 300			28.4	18.1	10.1
International Equities	4,592.8	17.9%	13.4	16.8	11.5
Salomon Global BMI (ex-Canada)			16.0	17.8	—
Real Estate (office and retail)	2,450.1	9.6%	11.7	5.9	—
Russell Canadian Office & Retail Property Index			6.8	2.0	—

The total Fund return for the year was 19.3%, placing the four-year average annual rate of return at 14.4%. With the continued low annual rate of inflation, this represents a healthy return on investments. Fund earnings are essential to the plan's success in such areas as:

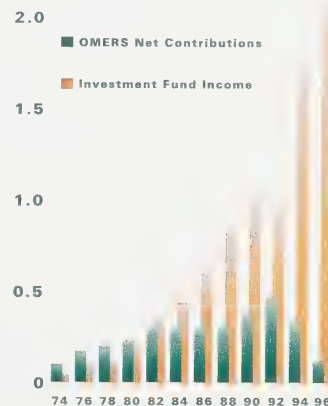
- maintenance of stable contribution rates;
- the provision of full pension indexing; and
- the long-term financial health of the plan.

OMERS has a long, proud history of fully funding its pension liability and maintaining a surplus. Over the years, investment performance has provided an ever-increasing proportion of the plan's funding.

The Fund has grown from \$12.5 billion at the end of 1990 to \$25.6 billion at year-end 1996. Consistent investment growth has been achieved through discipline and diversification in fund management.

Net Funds Available for Investment

\$ billions, as at December 31



Total Investments
as at December 31
(\$ billions)



Consolidated Investment Assets

Market Value as at December 31 (000s)		1996	1995
Fixed Income Investments			
Cash and Short Term		\$ 1,760,895	\$ 876,473
Ontario Debentures		828,480	818,058
Marketable Bonds:	• Canadian	3,788,450	2,890,714
	• International	446,098	397,183
Private Placements – Debt		92,222	100,599
Mortgages:	• Residential - Insured	397,263	534,735
	• Non-residential	1,170,875	1,033,756
	• Real Estate		
	Held for Resale	69,341	85,567
Total Fixed Income Investments		\$ 8,553,624	\$ 6,737,085
Equity Investments			
Stocks			
Canadian:	• Indexed	\$ 1,351,577	\$ 1,264,062
	• Active	8,480,959	6,522,787
International:	• Indexed	1,259,713	1,694,031
	• Active	3,098,035	2,314,772
Total Stocks		14,190,284	11,795,652
Private Placements – Equity		421,942	352,980
Total Equity Investments		\$ 14,612,226	\$ 12,148,632
Real Estate		\$ 2,450,121	\$ 2,391,328
Total Investments		\$ 25,615,971	\$ 21,277,045

Asset Allocation

Asset allocation – the investment mix – brings together the Fund's investment strategy with the long-term pension liability. The asset allocation process sets objectives not only for the entire Fund, but also for the many investment portfolios within the Fund.

For OMERS, the orchestration of the many parts, the maintenance of the balance in asset allocation, and the achievement of clearly defined goals in each portfolio is the performance that counts.

The asset allocation for 1996 provided a target range around the medians shown in the graph, next page. The Fund maintained its balance, using

derivatives and net sales to rebalance the tremendous growth in equities. International investments include equities, fixed income, and derivatives.

Every four years OMERS undertakes a comprehensive review of the asset allocation policy. Asset and liability projections, and changes in both pension and investment environments, are examined during the review. The most recent review, begun in 1996, was completed early in 1997, when recommendations were adopted by the OMERS Board.

One of the issues examined in the review was a reduced availability of Canadian government bonds, brought about by a lower deficit and reduced government borrowing, which has made it harder to invest in fixed income securities in this country. As a result of this and other changes in the Canadian investment environment, the Fund will shift some of its domestic fixed income allocation to foreign bonds and to domestic and foreign equities. The total allocation to international investments, including fixed income, equities, and derivatives, will increase slightly, within the constraints imposed by the *Income Tax Act*.

Derivatives

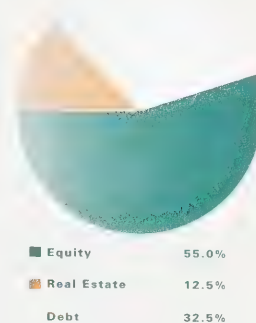
The derivatives programme allows the large and complex OMERS Fund to move swiftly, precisely, and judiciously when occasion demands. Derivatives are used to adjust or rebalance the Fund's asset mix and international allocation quickly without upsetting other portfolios. They play an important part in achieving our performance goals.

A new portfolio added in 1996 effectively reallocates lower yielding short-term money market investments to higher yielding bond and equity markets, mirroring the Fund's asset mix proportions and markets. This "overlay" programme will play an important role in adjusting the Fund's asset mix characteristics and international allocation.

Strong returns in 1996 increased the programme's value from approximately \$792 million in 1995 to more than \$1.1 billion at the end of 1996.

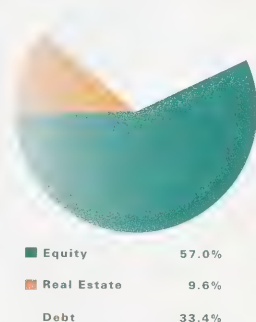
Target Asset Allocation

(midpoint in target range)



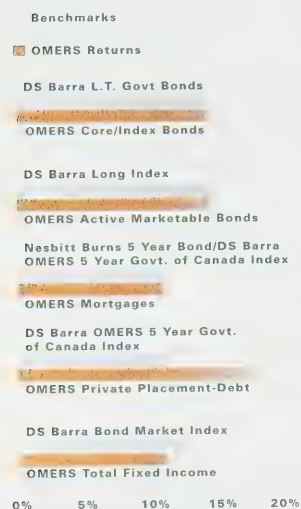
Actual Asset Allocation

as at December 31, 1996



1996 Fixed Income Returns vs Benchmarks

(1 year)



Fixed Income

There was a global decline in interest rates in 1996, but nowhere was the decline as dramatic as it was in Canada, where good fiscal management combined with good economic growth forced interest rates to fall rapidly. Fixed income instruments continued to produce excellent returns, although their performance was overshadowed by the even more remarkable performance of equities.

The Fund's fixed income assets are managed in several distinct portfolios. The use of complementary quantitative and active management styles helps the Fund achieve a better and more stable performance.

The quantitatively managed Canadian core bond portfolio holds federal and provincial bonds. The Canadian active bond portfolio adds municipal and corporate bonds and an interest rate anticipation strategy. Each portfolio returned 14.3% in 1996, closely matching its benchmarks. A mid-term bond portfolio of about \$1 billion, designed to redeploy excess cash and help manage investment duration, was introduced in June.

The foreign bond fund, valued at \$446 million at year end, returned 5.3% in 1996, outperforming its benchmark's return of 4.7%.

The money market fund consists of three portfolios: active, cash management and short term assets backing the derivatives fund. The active portfolio, which outperformed the Scotia McLeod 91-day Treasury Bill Index, was restructured to include only T-bills for enhanced liquidity. The cash management portfolio is invested in credit instruments with a very short duration to meet daily cash flow requirements. The money market portfolio backing the derivatives programme, which must meet the return requirements implicit in the pricing of the various derivative instruments, grew from approximately \$752 million at the beginning of the year to more than \$1.1 billion.

The mortgage portfolio declined in size as OMERS maintained the high quality of the portfolio in an increasingly competitive market. The mortgage department reviewed upwards of \$2.5 billion worth of loan proposals, but ultimately booked only \$139 million in new business, all in higher yielding conventional loans. Interest rates decreased substantially in 1996, although the yield on new loans is still higher than that of a Government of Canada bond of a similar term. Mortgages saw a return of 11.7% in 1996, slightly underperforming the benchmark. Continued good performance in the mortgage portfolio will depend on the availability of good quality loans.

The private debt markets were also very competitive in 1996. Maturities and redemptions reduced the size of the portfolio over the year, although three new loans were made. The quality of the portfolio substantially improved in 1996, while the narrowing of spreads in the corporate market created gains in the portfolio's market value. The 1996 return of 17.9% was well above the 11.9% benchmark return, and the four-year annual average return of 19.2% is almost double that of the benchmark.

Equities

Following 1995 – a record-setting year – a major correction in the financial markets was anticipated for 1996. But with few exceptions, global markets defied conventional wisdom and continued to provide excellent returns. North American equity markets proved particularly resilient despite fears that the unexpectedly strong economic indicators would push interest rates up. European markets did well as most economies recovered from recession. Although Japan continued to fare poorly, both Hong Kong and Australia saw double-digit returns.

With the boom in Canadian equity markets, the market value of the actively managed Canadian equity portfolios increased \$2.0 billion despite net selling of \$772 million.

The core fund had an excellent year in 1996, growing by \$1.2 billion despite net selling of \$760 million worth of securities, and returning 36.2% compared to a total return of 28.4% for the TSE 300. The portfolio's four-year average annual return of 21.1% also outpaced the TSE's 18.1%.

The small capitalization fund's performance of 28.2% slightly lagged that of its benchmark because OMERS holds less in speculative resource-sector stocks than the benchmark, and resource stocks did very well in the first half of 1996.

The Canadian indexed equities fund achieved its objective of closely matching the TSE 300 total return. Low risk strategies such as dividend reinvestment plans, call option overwriting, and anticipation of changes to the TSE index "portfolio" are used to enhance the fund's performance. Valued at \$1.4 billion and representing 5.3% of the total Fund at year end, the fund met its objective and returned 28.9% in 1996, compared to 28.4% for its benchmark.

1996 Canadian Equity Returns

vs Benchmarks

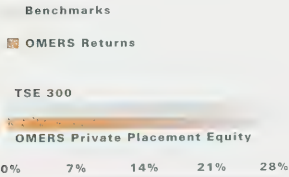
(1 year)



1996 Private Placement

Equity Returns vs Benchmark

(1 year)



OMERS employs external portfolio managers to provide the Fund's equity investments with diversification by management style, as well as with management expertise specific to particular markets. The Canadian external funds programme had \$2.3 billion placed with 10 external management companies at the end of 1996. With a return of 26%, the portfolio slightly underperformed the TSE 300's 28.4% return for the year, in part because the externally managed funds concentrate on a growth style, which was outperformed by the value style of management in 1996.

The private equity portfolio benefited from gains in several investments, and found several attractive new opportunities in 1996. At year-end the portfolio totalled \$422 million, an increase of \$69 million over a year earlier, while income earned and net realized capital gains totalled \$63.0 million. With a healthy initial public offering market and steady interest rates, the portfolio will continue to provide consistent results.

International

The U.S. equity portfolio, encompassing mid-cap growth, small-cap growth, and small-cap value segments, was very successful; at year end it was 102 basis points ahead of the S&P 500 return and 137 points ahead of the mid-cap growth index.

OMERS also manages two U.S. indexed equity funds: a portfolio of larger capitalization stocks matched with the S&P 500 index, and an S&P 400 mid-cap value fund. The indexed funds, which slightly outperformed their benchmarks for the year, complement the externally, actively managed U.S. equity programme.

The non-North American composite outperformed its benchmark by 440 basis points in 1996, and by 140 points in its four-year annual average performance. The programme's assets were \$2.6 billion at year end.

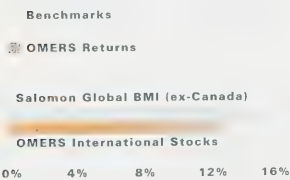
To maintain the Fund's foreign investment programme below the *Income Tax Act* limits, some \$133 million was returned to Canadian dollars from a Japan-only index fund and a Europe-only portfolio.

Performance in the international programme continues to be more than satisfactory. Although individual programmes met or exceeded their benchmarks, the aggregate international investments did not. This is because the Fund's target asset allocation, which includes long-term investment in emerging markets, is not reflected in the Salomon Global index.

1996 Foreign Equity Returns

vs Benchmark

(1 year)



OMERS Realty Corporation

OMERS Realty Corporation (ORC) is a wholly-owned subsidiary of OMERS, created to develop and manage a high-quality portfolio of real estate properties. The company owns or holds an interest in a total of 38 properties comprising 19.8 million square feet of gross leasable area. The buildings are well leased, 95.6% on average, with regional shopping centers exceeding 97.4% leased.

The market value of the properties at year end was approximately \$2.5 billion, or about 9.6% of the total OMERS Fund. ORC's properties performed well with an 11.7% total return for the year compared to a 6.8% return for the industry benchmark, the Russell Canadian Office & Retail Property Index.

In 1996 the Board undertook the comprehensive review of ORC's mandate and its relationship to OMERS that had been planned from the subsidiary's inception. The review studied ORC's history and performance, and found that the company had achieved its purpose.

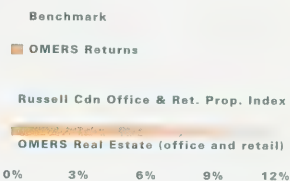
The report presented to the Board in January 1997 discussed evolving real estate best practices, offered an analysis of trends in public-sector pension fund real estate investing in North America, compared alternative organizational models and their advantages and disadvantages, and recommended changes to position OMERS for maximum flexibility in a changing environment.

The OMERS Board chose to adopt a multi-manager approach, using external managers to supplement ORC's role in the management of the Fund's direct real estate investments. This approach will place the accountability for all real estate decisions with the OMERS Board and support more effective management of the overall Fund. It will integrate the management of all direct and indirect real estate assets, such as mortgages, within the total OMERS portfolio. The change will also provide OMERS with greater flexibility for further diversification of the portfolio and enhanced management of risks and returns.

Although the period from 1990 through 1995 showed the worst real estate investment performance in recent history, OMERS remains committed to real estate as an asset class. Returns over the long term have been slightly higher than bond returns and slightly lower than equity returns, with lower volatility than either bonds or equities. Real estate provides diversification in the OMERS Fund, and is an effective hedge against inflation.

1996 Real Estate Returns vs Benchmark

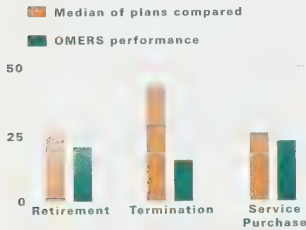
(1 year)



MANAGING WELL

Service Level Benchmarking

Benefit Calculations
(business days)



OMERS manages its administration and investment programmes to maintain high quality service and prudent investment of the Fund, while building to meet the future needs of the plan. OMERS achieves these objectives through responsible planning and with careful, practical cost restraint.

Since 1992, OMERS has been monitoring and continually improving plan performance. OMERS was a leader in the establishment of Quantitative Service Measurement (QSM), a forum for six major Canadian public sector pension plans. The group meets regularly to benchmark costs and service levels, to examine and compare operations, and to identify opportunities for cost reductions and service improvements.

Although the number of member retirements is moderating, changes in Ontario's local government environment continue to place new burdens on OMERS. Member transactions are becoming more complex, employers rely more heavily on administrative services, and the number of pensioners is growing, generating additional operating costs and strains for the pension programme.

The redevelopment of the OMERS pension administration system, staff development in preparation for more complex future systems, and an enhanced communications programme have raised the pension programme cost per plan participant from \$74 in 1995 to \$78 in 1996. In comparison with other major Canadian defined-benefit pension plans, this cost is at an average level.

The OMERS Fund's growth and its disciplined and diversified investment programme, have also added complexity to plan management. Additional investment operating expenses have been consistent with Fund growth, while research and information, and systems acquisition and development costs have provided for better informed decision-making.

OMERS compares its investment operations costs with a large group of Canadian and American pension funds. Although the 1996 investment programme cost increased slightly, OMERS remains a low-cost investment manager. Operating effectiveness and efficiency measures, in comparison with the benchmark, add value to the Fund. New and more efficient systems, purchasing through competitive bidding, and a new contract with the Fund's master custodian all helped OMERS to realize substantial savings in investment operating expenses in 1996.

Plan Funding

Keeping contribution rates stable and reasonable for members and employers, and maintaining a surplus position for the plan are key objectives in the management of the OMERS plan's funding.

OMERS has a long history of sound funding management.

The surplus allows the Board to top up indexed pension increases to 100% of the Consumer Price Index increase each year. Over the years, prudent funding has allowed OMERS to offer such plan improvements as unreduced early retirement pensions (when age and service criteria are met), a 60% surviving spouse's benefit, disability benefits, and, most recently, special Social Contract provisions.

The surplus also permits the establishment of a Funding Stabilization Reserve (FSR), equal to 5% of the plan liabilities. This tool, important to the maintenance of contribution rate stability, serves as a buffer against unexpected swings in the actuarial value of plan assets caused by variations in investment returns, or against plan experience that differs from actuarial assumptions.

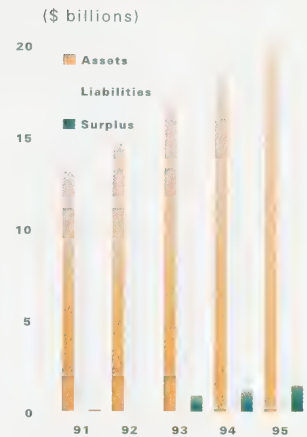
For the valuation as at December 31, 1995, changes were made to the actuarial assumptions to better reflect projected long-term economic conditions that affect the plan.

Changed Assumptions

	From	To
Rate of return:	8.5%	7.5%
Wage growth:	7.0%	5.5%
YMPE Growth:	6.0%	5.0%
Inflation:	5.0%	4.0%

The actuarial valuation of the plan at December 31, 1995, conducted by Watson Wyatt Worldwide, indicates a surplus of \$1.449 billion, giving the plan a funded ratio of 108%. With continued good investment returns and restrained wage growth, the plan surplus is projected to continue to grow at a very fast rate for the next few years, and to exceed the maximum allowed under the *Income Tax Act*. The OMERS Board discussed the management of surplus growth at length, and early in 1997 sent proposals for its management to the Ontario Government for approval.

Actuarial Assets vs Minimum Liabilities



RESPONSIVE MANAGEMENT

Responsiveness and flexibility help OMERS meet the diverse pension needs of plan participants. The Board continues to adapt to change and to help members and employers deal with new circumstances. For example, proposals for the management of the growing surplus, sent to the Ontario Government early in 1997, include a variety of measures designed to assist plan participants in different ways.

OMERS is proud of its history of high quality, customer-focused service. The staff has worked hard to maintain service standards in spite of a huge increase in the volume of work generated first by the Social Contract, and now by changes in the structure of local government in Ontario.

Changing Environment

Outsourcing, divestment, off-loading of services, cost containment, reorganization, consolidation, megacity – the new vocabulary describes the changes affecting local government in Ontario. Most of these changes affect OMERS, financially and administratively. The rising number of early retirements and the small but appreciable decline in the number of active OMERS members indicate the current trend. The Board reintroduced flexible, employer-purchased early retirement benefits to help members and employers deal with redundancies.

The OMERS Board is monitoring the changing local government environment and continues to look for ways to help Ontario's local governments respond to new circumstances. It has recommended to the Ontario Government that, in order to accommodate staff being transferred to private sector service providers, transfers from the OMERS plan to private sector pension plans be allowed. The Board has also proposed changes to the definition of "eligible OMERS employer" to permit the participation of companies providing local government services and to allow plan members transferred as part of a divestment or outsourcing to be "grandfathered" in OMERS.

OMERS is also working closely with the other major public sector pension plans in Ontario to create agreements that will allow each others' members to transfer their benefits between the plans as groups of employees are moved following the "disentanglement" of local and provincial services. Staff are also preparing to cope with an unprecedented number of employer group amalgamations as school boards, municipalities, and other local governments are merged into larger units in the coming year.

Social Contract

Ontario's Social Contract ended on March 31, 1996. The Board's Social Contract initiatives, which included flexible, cost-effective plan modifications and subsidized early retirement incentives, contributed an estimated \$425 million to the efforts of plan members and employers to meet their Social Contract targets. Of that, an estimated \$50 million was used to pay pension contributions for members' unpaid leave days or pay reductions, and \$375 million was used to subsidize the early retirements of 8,241 members.

Pension Increase

An increase of 1.5%, which equalled 100% of the September to September Consumer Price Index (CPI) increase, was applied to pensions on January 1, 1997. The OMERS plan is indexed to 70% of the increase in the CPI, and an ad hoc increase may top up the indexed increase to 100% of the annual change in the CPI. A prorated increase is applied to pensions that have been paid for less than 13 months.

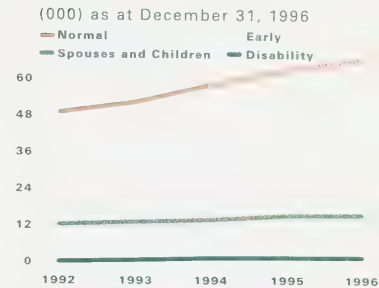
OMERS paid ad hoc pension increases from the surplus in 16 of the 20 years prior to the introduction of guaranteed indexing in 1992, and has topped up the increase to 100% of the change in the CPI in every year since then. Prudent management has maintained the surplus that helps OMERS pensioners cope with inflation.

Improving Service

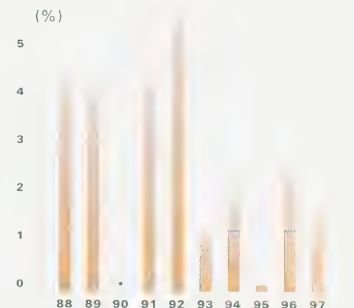
Completion of the rebuilding of the OMERS pension administration computer system, the Membership Services System redevelopment project, is expected late in 1998. The new system will, with improved efficiency, meet members' and employers' needs for more flexible service. A competitive purchase process at each phase of the project, due diligence, and the use of expert advisors with an explicit role in risk management have ensured steady progress at reasonable cost.

OMERS also began making changes to its pension communications programme in 1996. The projects undertaken during the year included: the expanded use of "plain language" in documents, forms, and publications; extension of the OMERS 1-800 number to all of Canada and the U.S.A.; analysis of the effectiveness of the OMERS Client Services call centre; and the research and development for a Web site.

Pensioners by Type of Pension



Pension Increases



*Date of annual increase changed from July 1. January 1, 1991 increase included 1990.

Managed Plans

The pension plans for the Colleges of Applied Arts and Technology (CAAT) and for Ryerson Polytechnic University were administered by OMERS for many years. The bulk of the assets and the administration of the CAAT plan were transferred to a new CAAT Pension Plan Board in 1995, and the remaining assets were transferred early in 1996.

OMERS also transferred the administration of the Ryerson Pension Plan to Ryerson Polytechnic University in 1995, but continues to manage their assets, valued at about \$339 million at December 31, 1996, commingled in the OMERS Fund.

RESPONSIBLE MANAGEMENT

As one of Canada's largest pension plans, OMERS participates in the discussion of public issues and policies, advocating the interests of plan participants, and acting as a responsible corporate member of the broader community.

Corporate Governance

OMERS, like other institutional investors, believes that effective management of public and private investment relationships will enhance returns. To promote good corporate governance and to gain better value for shareholders, OMERS uses the diligent voting of its extensive share holdings in accordance with a formal, published set of proxy voting guidelines.

In an address to the Senate Committee on Banking, Trade and Commerce, which is studying several corporate governance issues as the basis for reform of the *Canada Business Corporations Act*, OMERS called for a legislated separation of the functions of corporate board chairs and chief executive officers. OMERS believes that the separation of functions allows the board to hold management accountable and to better direct the company in the shareholders' interests.

Governing OMERS

OMERS is managed by a board composed of 12 representatives of the plan participants, and one representative of the Ontario Government. This is a lay board, knowledgeable and advised by experts, with a sensitivity to the plan's members, employers, and pensioners.

Attuned both to the interests of the plan's participants – which are, in fact, their own interests – and to the public service ethic, the Board has always had a strong commitment to the success of the plan.

The Board and senior management are separate, with clearly defined roles and responsibilities – an arrangement OMERS actively promotes in corporate governance as well.

C a n a d a P e n s i o n P l a n

Changes to the Canada Pension Plan (CPP) are necessary to keep future contribution rates at reasonable levels. During the year a federal and provincial government commission held hearings across the country into proposed changes to the CPP.

The OMERS Board analyzed the proposed changes and produced a paper outlining issues, concerns, and suggestions for the CPP Commission. The paper was distributed to OMERS members and pensioners with a summary of the proposed changes and a survey form plan participants could use to express their views to Ottawa. Thousands of the forms were sent, and certainly had an impact on the deliberations.

Changes agreed upon by the federal and provincial governments include the introduction, over the next few years, of sharply increased contribution rates, and some modifications to disability, retirement, and death benefits, and the capping of dual (personal plus survivor) benefits. Because new retirement pensions will be calculated using an average of the previous five years' maximum pensionable earnings (YMPE) instead of the current three years' average, OMERS will re-examine the offset calculation embedded in the OMERS pension formula.

The investment of an increased CPP Investment Fund, another of the changes to the management of the CPP, may have a significant impact on Canada's capital markets. OMERS will monitor these developments closely.

L o o k i n g A h e a d

The OMERS plan is, as it has always been, fully funded by the contributions of its plan members and employers and the investment earnings of the OMERS Fund. Measured against industry benchmarks, the plan delivers efficient, quality service cost-effectively. These achievements, consistent over a period of 35 years, indicate that the OMERS Board and management perform effectively.



OMERS will continue to strive for performance excellence in achieving plan management goals – whether meeting the “pension promise” through prudent investment, managing operations in a cost-effective manner, meeting the diverse benefit needs of members, helping members and employers respond to the changing local government environment, or meeting high standards of service to plan participants.

Managing change is proving to be one of the central themes of the 1990s. OMERS will continue to adapt to changing circumstances in Ontario’s local governments through the governance of OMERS, through policy initiatives, and through its commitment to service.

Prudent investment management requires a disciplined investment strategy that is responsive to changing markets. Although it is most unlikely that markets will match their remarkable 1996 performance in 1997, there will be new opportunities. OMERS will continue to apply a disciplined approach to investing the Fund in order to make the best of every opportunity.

In a constantly changing landscape, the real test of performance is the plan’s ability to meet its pension promise.

FIVE YEAR REVIEW OF PLAN DATA

	1996	1995	1994	1993	1992
Employers					
Municipalities	534	534	529	538	538
School boards	133	134	134	134	135
Other local boards	464	462	457	448	448
	1,131	1,130	1,120	1,120	1,121
Active Members					
by employer					
Municipalities	92,342	94,068	94,964	95,462	94,334
School boards	52,495	52,926	52,637	53,076	53,079
Other local boards	40,775	41,283	41,397	41,638	42,289
Inactive groups	238	7	35	21	89
	185,850	188,284	189,033	190,197	189,791
by sex					
Female	91,557	92,146	91,618	91,001	89,612
Male	94,293	96,138	97,415	99,196	100,179
	185,850	188,284	189,033	190,197	189,791
by normal retirement age					
Age 65	162,614	165,085	165,989	167,082	166,571
Age 60	23,236	23,199	23,044	23,115	23,220
	185,850	188,284	189,033	190,197	189,791
Terminated Members					
who have elected a deferred pension	8,754	8,532	8,163	7,947	7,769
Number of Pensioners by type of pension					
Normal retirement	23,368	23,212	22,914	22,538	21,967
Early retirement	27,304	23,843	20,072	16,165	14,511
Disability pension	2,836	2,846	2,814	2,743	2,654
Spouses and children	13,850	13,261	12,628	11,987	11,278
	67,358	63,162	58,428	53,433	50,410
Total Membership comprising active and inactive members, and pensioners	261,962	259,978	255,624	251,577	247,970
Number of members enrolled per year	7,285	9,225	8,440	8,112	10,933
Number of new retirements per year	6,271	5,459	5,804	3,688	3,576
Number of other terminations per year	3,448	4,515	3,800	4,018	5,033
Net increase (decrease) in active membership	(2,434)	(749)	(1,164)	406	2,324

FIVE YEAR REVIEW OF FINANCIAL DATA

\$ millions	1996	1995	1994	1993	1992
*Investments at market value					
Ontario debentures	828.5	818.1	995.5	1,297.8	1,303.7
Marketable securities	24,787.5	20,458.9	19,650.3	18,791.3	14,529.7
	25,616.0	21,277.0	20,645.8	20,089.1	15,833.4
*Assets at market value for					
Basic plan	25,378.3	21,212.7	18,388.8	17,778.1	14,004.8
Supplementary benefits agreements	110.9	120.6	133.9	139.3	136.3
Administered pension funds	341.2	344.9	2,463.3	2,361.4	1,840.5
	25,830.4	21,678.2	20,986.0	20,278.8	15,981.6
Investment income earned					
Basic plan	2,002.7	1,362.6	1,483.8	1,419.1	815.4
Supplementary benefits agreements	8.8	11.5	12.7	8.4	8.3
Administered pension funds	26.4	182.0	198.3	186.6	106.3
	2,037.9	1,556.1	1,694.8	1,614.1	930.0
Contributions received for					
Basic plan	874.1	869.1	870.0	890.0	878.1
Basic plan unfunded liabilities	7.5	5.4	9.3	11.6	11.5
Supplementary benefits agreements	0.3	1.1	0.1	0.6	0.3
	881.9	875.6	879.4	902.2	889.9
Payments to members					
Pensions paid	661.4	570.1	490.7	414.3	372.6
Contributions and interest refunded	88.5	66.7	50.7	43.5	37.4
Transfers to other plans	5.8	6.5	4.7	5.6	12.9
	755.7	643.3	546.1	463.4	422.9
Administrative expenditures					
Pension programme	17.5	16.7	17.5	16.5	16.6
Investment programme	19.6	18.6	17.7	16.6	15.6
	37.1	35.3	35.2	33.1	32.2
Total Fund annual rates of return					
Dollar-weighted return on book value	10.9%	7.9%	9.5%	10.2%	6.4%
Time-weighted return on market value	19.3%	14.2%	1.8%	23.7%	3.9%

*as at December 31



The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1995 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Standard of Practice for Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The actuarial valuation of OMERS as at December 31, 1995 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion, the data are sufficient and reliable for the purposes of actuarial valuation.

In our opinion, the assumptions adopted for our actuarial valuation of OMERS are appropriate, and the methods employed are consistent with sound actuarial principles. Nonetheless, the experience of OMERS in the future may be different from the actuarial assumptions, and may result in gains or losses which will be revealed in future actuarial valuations.

The results of the actuarial valuation disclosed total Actuarial Liabilities of \$18,529.599 million in respect of benefits accrued for service prior to December 31, 1995, including the effect of an ad hoc adjustment to pensions as at January 1, 1996. The Actuarial Assets at that date were \$19,978.622 million indicating an actuarial surplus of \$1,449.023 million, of which \$926.436 million has been allocated to a Funding Stabilization Reserve by the Board.

The results of the actuarial valuation also indicated that the existing levels of member and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1996 taking into account amendments made to the Plan up to December 31, 1996. Further, we have calculated the Actuarial Assets at December 31, 1996.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1996 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted

WATSON WYATT & COMPANY

A handwritten signature in dark ink, reading 'Martin Brown' in a cursive script.

Martin J.K. Brown, F.I.A.

Fellow, Canadian Institute of Actuaries

March 21, 1997



We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1996 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

A handwritten signature in dark ink, appearing to read 'KPMG', positioned above the printed name.

Chartered Accountants

Toronto, Canada

March 21, 1997

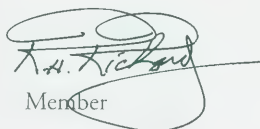
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF NET ASSETS

As at December 31 (000s)	1996	1995
Assets		
Investments (note 2)	\$ 25,615,971	\$ 21,277,045
Long-term receivables (note 4)	34,981	41,413
Contributions receivable	67,211	74,881
Accrued income	275,731	381,345
Total Assets	25,993,894	21,774,684
Liabilities		
Due to administered pension funds (note 5)	341,244	344,901
Accrued liabilities	274,372	217,087
Total Liabilities	615,616	561,988
Net Assets (note 6)	\$ 25,378,278	\$ 21,212,696

Signed on behalf of the Board


Member


Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

As at December 31 (000s)	1996	1995
Increases in Net Assets		
Contributions (note 7)	\$ 881,886	\$ 875,605
Net investment income (note 8)	2,002,733	1,362,617
Unrealized appreciation in fair value of investments	2,073,831	1,264,332
Total Increase	4,958,450	3,502,554
Decreases in Net Assets		
Benefits (note 9)	755,739	643,337
Administrative expenditures (note 10)	37,129	35,320
Total Decrease	792,868	678,657
Increase in Net Assets	4,165,582	2,823,897
Net assets at beginning of year	21,212,696	18,388,799
Net Assets at End of Year	\$ 25,378,278	\$ 21,212,696

GENERAL

The Ontario Municipal Employees Retirement System (OMERS) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the *Ontario Municipal Employees Retirement System Act* (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the *Ontario Pension Benefits Act*, Registration #0345983.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The *Pension Benefits Act* (PBA) requires that participating employers fund the benefits determined under the plan. In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability waivers and pensions, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the *OMERS Act* and *Regulation* or by contacting OMERS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amount of unrealized appreciation in fair value of investments. Actual results could differ from these estimates.

Consolidation

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of real estate properties jointly owned with others.

Changes in Accounting Standards

Canadian Institute of Chartered Accountants Handbook, section number 3860, *Presentation and Disclosure of Financial Instruments*, was adopted in 1996. This new section sets standards for the presentation and disclosure of financial instruments including risk management. In previous financial statements, the term "market value" was used to describe asset and liability values. As a result

of the adoption of this standard, the term “fair value” has replaced the term “market value” in describing valuation of financial assets and liabilities.

Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair value of contributions receivable, accrued income, and accrued liabilities approximate their carrying amounts.

Investments

Investments are recorded as of the trade date and are stated at fair value. Fair value takes into account changes in market rates and portfolio credit risk that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets as unrealized appreciation of investments.

Fair values of investments are determined as follows:

- i) Short-term deposits are recorded at cost, which approximates fair value.
- ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market values are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.
- iii) Real estate, composed primarily of income producing properties, is valued based on appraised values determined annually by independent appraisers in accordance with generally accepted appraisal practices and procedures, based mainly on discounted cash flows. In performing the appraisals, certain assumptions are made with respect to future economic conditions and rates of return. Jones Lang Wootton Canada Inc. and Colliers Macaulay Nicolls Inc. are the firms of independent appraisers used.
- iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk.
- v) Interest rate swaps, bond and equity index swaps, bond futures contracts, equity index futures contracts, and forward foreign exchange contracts are valued at year-end market prices.

Investment income, which is recorded on the accrual basis, includes dividends, interest income, and real estate operating income as well as gains and losses that have been realized on investments.

Foreign Currency Translation

The fair values of foreign-currency denominated investments included in the statement of net assets are translated into Canadian dollars at the year-end rate of exchange.

Gains and losses arising from this translation are included in unrealized appreciation of investments.

Foreign currency denominated transactions, as well as cost amounts included in the financial statements, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivative Financial Instruments

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset/liability management and to assist in the management of financial risks, including foreign exchange risks.

NOTE 1 - RESPONSIBILITIES OF THE ACTUARY AND EXTERNAL AUDITORS

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are appointed by the Board. Their responsibility is to report to the Board regarding the fairness of presentation of the OMERS financial position, results of operations, and changes in the financial position as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuary for the actuarial liabilities as disclosed in the notes to the financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

NOTE 2 - INVESTMENTS

(000s)	1996		1995	
	Fair Value	Cost	Fair Value	Cost
Interest Bearing Investments				
Cash and short-term deposits	\$ 1,760,895	\$ 1,760,895	\$ 876,473	\$ 876,473
Canadian bonds and debentures	4,616,930	4,171,657	3,708,772	3,366,451
Non-Canadian bonds	446,098	435,283	397,183	383,684
Private debt	92,222	89,887	100,599	107,126
Mortgages	1,637,479	1,489,209	1,654,058	1,551,663
	<u>\$ 8,553,624</u>	<u>\$ 7,946,931</u>	<u>\$ 6,737,085</u>	<u>\$ 6,285,397</u>
Non-Interest Bearing Investments				
Canadian equities	9,832,536	6,469,055	7,786,849	6,245,921
Non-Canadian equities	4,357,748	3,471,810	4,008,803	3,174,752
Real estate	2,450,121	2,786,266	2,391,328	2,801,224
Resource properties	53,964	44,486	41,790	44,661
Canadian private equities	133,005	125,166	109,184	105,260
Non-Canadian private equities	234,973	203,645	202,006	154,035
	<u>\$ 17,062,347</u>	<u>\$ 13,100,428</u>	<u>\$ 14,539,960</u>	<u>\$ 12,525,853</u>
Total Investments	<u>\$ 25,615,971</u>	<u>\$ 21,047,359</u>	<u>\$ 21,277,045</u>	<u>\$ 18,811,250</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 2 - INVESTMENTS (CONTINUED)

Included as mortgages are \$69,341,000 (1995 - \$85,567,000) of properties acquired by OMERS on foreclosure. These properties are held for sale and are carried at appraised values determined by independent appraisers in accordance with generally accepted appraisal practices and procedures. Income earned on these assets in 1996 was \$1,587,000 (1995 - loss of \$315,000).

Term to maturity classifications of interest bearing investments are based upon the contractual maturity of the securities and are as follows:

	1996				1995		
	Term of Maturity						
	Within 1 Year	1 to 5 Years	Over 5 Years	Total	Average	Total	Average
(000s)	(\$)	(\$)	(\$)	(\$)	Effective Yield	(\$)	Effective Yield
Cash and short-term deposits	1,760,895	-	-	1,760,895	3.05%	876,473	6.02%
Canadian bonds and debentures	25,739	1,045,082	3,546,109	4,616,930	6.77%	3,708,772	7.52%
Non-Canadian bonds	12,682	208,736	224,680	446,098	5.80%	397,183	6.00%
Private debt	23,278	13,377	55,567	92,222	8.26%	100,599	9.12%
Mortgages	210,897	912,821	513,761	1,637,479	6.10%	1,654,058	6.71%
Total	2,033,491	2,180,016	4,340,117	8,553,624	5.84%	6,737,085	7.06%

Average effective yield is based upon fair value as at the year-end date.

Cash and short-term deposits include backing assets for derivative instruments. The average effective yield adjusted for interest rate derivative instruments is 3.62% (1995 - no effect).

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 4.4% (1995 - 3.8%) of the Canadian bonds and debentures. Non-Canadian bonds are liquid and tradeable government debt issues of 12 member countries of the Organization for Economic Cooperation and Development.

At December 31, 1996, the Fund held the following investments, each having a fair value or cost exceeding 1% of the fair value or cost of total investments:

(000s)	Number of Investments	1996 Aggregate	
		Fair Value	Cost
Canadian equities	5	\$ 1,586,410	\$ 814,465
Real estate properties	4	993,377	1,056,933
Canadian bonds and debentures	2	590,671	502,001
	11	\$ 3,170,458	\$ 2,373,399

NOTE 2 - INVESTMENTS (CONTINUED)

Real estate investments above include ownership interest in the following properties, all of which are located in Toronto, Ontario: BCE Place (Canada Trust Tower); One Financial Place; Scarborough Town Centre; and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through joint ventures. The fair value of OMERS proportionate share in these assets was \$1,182,580,000 at December 31, 1996 (1995 - \$1,186,736,000). The net income earned from OMERS investment in joint ventures was \$88,961,000 for the year ended December 31, 1996 (1995 - \$83,613,000) and is included in net investment income from real estate.

OMERS has guaranteed certain of the obligations of its joint ventures and is contingently liable for the obligations of its associates in certain joint venture developments. The assets of the joint ventures are available and are sufficient for the purpose of satisfying such obligations.

OMERS adheres to the concept of risk diversification in its investment policy. Part of this diversification is achieved through utilization of foreign investments. The two major foreign currencies represented in the Fund at December 31, 1996 are 8.37% U.S. Dollars (1995 - 10.58%) and 3.48% Japanese Yen (1995 - 5.8%).

OMERS participates in a securities lending programme whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. Securities with an estimated fair value of \$536,029,000 (1995 - \$441,090,000) have been loaned. The Fund received securities as collateral with an estimated fair value of \$562,830,000 (1995 - \$463,144,000).

NOTE 3 - DERIVATIVE FINANCIAL INSTRUMENTS

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. The Fund deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency, and does not expect any counterparties to fail. OMERS derivative investment activities in combination with the cash and short-term deposits portfolio, are made on an unlevered basis and master netting agreements are arranged or collateral is obtained on all derivative transactions.

The credit risk exposure is represented by the receivable replacement value of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date. Credit risk represents the maximum amount that would be at risk if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk on futures contracts is mitigated by marking contracts to market and settling margin receivables and payables in cash daily, and credit risk on swap contracts is mitigated by quarterly cash settlements whereby the party whose side of the swap has decreased in fair value provides prepayment collateral to the other party in the amount of the fair value decreases.

The fair value of derivative financial instruments approximates replacement value and all derivative instruments mature within one year except interest rate swap contracts of \$235,000,000 (1995 - nil) that mature between 2002 and 2004.

NOTE 3 - DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(000s)

1996

			Margin			
	Notional	Prepayment	Received/	Replacement Value		
	Value	Collateral	(Paid)	Receivable	Payable	Credit Risk
Interest rate swap contracts	\$ 235,000	-	-	\$ 10,500	-	\$ 10,500
Bond index swap contracts	200,000	\$ 3,886	-	6,195	-	2,309
Equity index swap contracts	220,500	5,386	-	13,629	\$ (3,366)	8,243
Bond futures contracts	52,341	-	\$ 210	210	-	-
Equity index futures contracts	412,470	-	(3,386)	6,727	(10,113)	-
Forward foreign exchange contracts	442,689	-	-	8,579	(1,316)	8,579
Total	\$ 1,563,000	\$ 9,272	\$ (3,176)	\$ 45,840	\$ (14,795)	\$ 29,631

(000s)

1995

			Margin			
	Notional	Prepayment	Received/	Replacement Value		
	Value	Collateral	(Paid)	Receivable	Payable	Credit Risk
Interest rate swap contracts	-	-	-	-	-	-
Bond index swap contracts	\$ 125,000	\$ 8,141	-	\$ 9,644	-	\$ 1,503
Equity index swap contracts	165,000	-	-	7,641	-	7,641
Bond futures contracts	-	-	-	-	-	-
Equity index futures contracts	472,594	-	\$ 5,942	6,395	\$ (453)	-
Forward foreign exchange contracts	2,436,974	-	-	7,841	(12,442)	7,841
Total	\$ 3,199,568	\$ 8,141	\$ 5,942	\$ 31,521	\$ (12,895)	\$ 16,985

NOTE 4 - LONG-TERM RECEIVABLES

Under the terms of the *OMERS Act* and *Regulation*, certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long-term receivables to be paid, with interest, over a period not to exceed 15 years. The fair value of the long-term receivables, which are valued using discounted cash flows using current market yield, is approximately \$35,785,000 (1995 - \$41,273,000).

NOTE 5 - DUE TO ADMINISTERED PENSION FUNDS

The managed pension plans which form part of the Fund are administered on behalf of the Board of Trustees of the Ryerson Polytechnic University, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

NOTE 6 - NET ASSETS

The actuarial valuation was conducted as of December 31, 1995 and has been extrapolated to December 31, 1996. The projected unit credit method, prorated on services, and certain funding assumptions were used in the valuation and the extrapolation. The funding assumptions used were changed for 1995 from those used in the December 31, 1994 actuarial valuation extrapolation to December 31, 1995.

Investments are valued at fair value as at December 31, 1996 for financial statement purposes, as disclosed in note 2. The actuarial value of net assets has been determined using an actuarial formula based on fair values over the last five-year period. The objective of this process is to smooth out the effects of market volatility by averaging fair values while reflecting long-term historical investment trends.

The actuarial present value of accrued pension benefits includes benefits for active members, pensioners and deferred vested pensioners. The actuarial present value of accrued pension benefits reflects management's best estimates of the pension plan's expected investment yields, salary escalations, mortality of members, terminations, and the ages at which members will retire. There is no intention of extinguishing these pension obligations in the near term and, as a result, fair value of the pension obligation is best approximated by the actuarial present value of accrued pension benefits using management's best-estimate assumptions. As these best-estimate assumptions may change over time to reflect changes in underlying conditions, it is possible that such changes in future conditions could cause a material change in the actuarial present value of future pension benefits. The following key best-estimate assumptions have been used in the actuarial valuation:

	1996	1995	
		After Change in Assumptions	Before Change in Assumptions
Assumed rate of inflation	4.0%	4.0%	5.0%
Assumed rate of pensionable earnings increases	5.5%	5.5%	7.0%
Assumed actuarial rate of return on plan assets	7.5%	7.5%	8.5%

NOTE 6 - NET ASSETS (CONTINUED)

The extrapolation of the actuarial valuation to December 31, 1996 has taken into account amendments made to the plan up to December 31, 1996. The 1995 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1995, which include the revised actuarial assumptions. The effect of the change of assumptions is shown in the table below.

(000s)	1996	1995
Fair value of net assets at end of year	\$ 25,372,297	\$ 21,208,298
Adjustment to the fair value for actuarial purposes	(2,845,094)	(1,229,676)
Actuarial value of net assets at end of year	22,527,203	19,978,622
Actuarial present value of accrued pension		
benefits at beginning of year	18,530,000	16,953,560
Ad hoc increases to pension benefits	38,000	40,034
Change in actuarial assumptions	0	283,945
Interest accrued on benefits	1,395,000	1,451,928
Benefits accrued	1,013,000	1,085,882
Benefits paid	(756,000)	(643,337)
Experience gains	(586,000)	(642,413)
Actuarial present value of accrued pension		
benefits at end of year	19,634,000	18,529,599
Full earnings pension assets	6,000	4,398
Full earnings pension liability	41,000	45,928
Net liability of full earnings pension	35,000	41,530
	19,669,000	18,571,129
Excess of actuarial value of net assets over actuarial		
present value of accrued pension benefits	\$ 2,858,203	\$ 1,407,493

The full earnings pension benefit was set up within the *OMERS Act* and *Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*.

A portion of the excess of actuarial value of net assets over the actuarial present value of accrued pension benefits has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve for 1996 is \$983.0 million (1995 - \$926.4 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - CONTRIBUTIONS

(000s)	1996	1995
Members	\$ 429,952	\$ 428,381
Employers, current service	429,952	428,381
Employers, long-term receivables and interest thereon (note 4)	7,500	5,366
Transfers from other pension plans	8,599	5,899
Other purchased service	5,562	6,492
Unreduced early retirement benefits	321	1,086
	\$ 881,886	\$ 875,605

NOTE 8 - NET INVESTMENT INCOME

(000s)	1996	1995
Short-term deposits	\$ 48,801	\$ 58,213
Canadian bonds and debentures	312,602	337,824
Non-Canadian bonds and debentures	27,751	28,091
Private debt	9,938	11,295
Mortgages	138,769	149,405
Canadian equities	214,390	192,118
Non-Canadian equities	62,218	76,721
Real estate	183,196	187,595
Resource properties	(1,666)	(363)
Canadian private equities	(3,795)	620
Non-Canadian private equities	3,030	1,322
Derivative instruments	70,411	12,753
	1,065,645	1,055,594
Realized gains	972,255	500,524
	2,037,900	1,556,118
Less income credited to:		
Administered pension funds	(26,363)	(182,003)
Provision for supplementary retirement benefits	(8,804)	(11,498)
	\$ 2,002,733	\$ 1,362,617

NOTE 9 - BENEFITS

(000s)	1996	1995
Members' pensions	\$ 661,454	\$ 570,071
Members' contributions plus interest refunded	88,460	66,766
Transfers to other pension plans	5,825	6,500
	\$ 755,739	\$ 643,337

NOTE 10 - ADMINISTRATIVE EXPENDITURES

a) Operating Expenses

(000s)	1996	1995
Personnel services	\$ 18,517	\$ 18,571
Transportation and communication	1,452	1,085
Actuarial services	430	437
Audit services	262	317
Legal services	541	307
Other professional services	568	168
Occupancy costs and municipal taxes	4,442	4,360
Systems development purchased services	2,445	2,280
Other purchased services	5,107	4,790
Equipment and depreciation	2,248	1,987
Materials and supplies	1,117	1,018
	\$ 37,129	\$ 35,320

b) Compensation

The following information is furnished in compliance with the *Public Sector Salary Disclosure Act, 1996*.

Employee	Position Held	1996 Compensation**	Taxable Benefits
OMERS			
M. Beswick	Senior Vice President, Pensions	\$ 153,026	\$ 492
D. Biggs	Vice President, Bonds & Cash Management	\$ 130,776	\$ 349
J. Buie	Vice President, Administration	\$ 101,097	\$ 317
E. Eastman	Portfolio Manager, Canadian Active Bonds	\$ 101,797	\$ 317
P. Friend	Portfolio Manager, Private Placements	\$ 111,933	\$ 315
E. Funston	Vice President, Pension Administration	\$ 113,482	\$ 361
W. Gladstone	Senior Vice President, Finance & Administration	\$ 155,352	\$ 492
G. Inamoto*	Portfolio Manager, Core Fund	\$ 110,300	\$ 313

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - ADMINISTRATIVE EXPENDITURES (CONTINUED)

Employee	Position Held	1996 Compensation**	Taxable Benefits
D. Leckman	Vice President, Public Market Equities	\$ 108,021	\$ 280
D. Markovich	Vice President, Funds Management	\$ 151,550	\$ 492
M. McKenzie	Vice President, Mortgages	\$ 126,216	\$ 411
H. Rachfalowski*	Vice President, Portfolio Management	\$ 180,067	\$ 473
D. Richmond	President & CEO	\$ 211,470	\$ 8,162
R. Sillcox*	Senior Vice President, Investments	\$ 241,042	\$ 481
C. Vaillancourt	Vice President, Information Services	\$ 125,045	\$ 394
S. Wiseman	Portfolio Manager, External Funds	\$ 107,702	\$ 317
OMERS Realty Corporation			
R. Churcher	Vice President, Properties	\$ 140,938	\$ 9,400
P. Colangelo*	Executive Vice President	\$ 362,500	\$ 9,780
J.M. Knowlton	Senior Vice President, Finance & Treasurer	\$ 207,403	\$ 9,578
C.J. Magwood*	President & CEO	\$ 653,453	\$ 12,780
J.R. Morrison	Senior Vice President, Properties	\$ 207,403	\$ 9,578

*no longer employed by OMERS or OMERS Realty Corporation

**compensation includes salary, bonuses, and other payments

NOTE 11 - SIGNIFICANT EVENT

Until December 31, 1995, a portion of the commingled investments of the Fund was attributable to the Colleges of Applied Arts and Technology Pension Plan (CAAT). Under the terms of the CAAT management agreement dated December 21, 1994 and the transfer agreement dated November 17, 1995, OMERS transferred cash and investments to the CAAT Board, effective with the close of business on December 31, 1995, in the amount of \$2,398,847,000. Investments and Due To Administered Pension Funds were reduced accordingly. As at December 31, 1995, the total value of assets to which CAAT was entitled was \$2,504,542,000. The final settlement which includes interest at prime, recovery for completion of all aspects of the asset transfer and adjustments, resulted in a final entitlement payment of \$2,515,749,000.

Entitlement at December 31, 1995	\$ 2,504,542,000
Interest	3,190,000
Expenses recovered	(488,000)
Adjustments	8,505,000
Final CAAT Entitlement	\$ 2,515,749,000

SENIOR OFFICERS AND MEMBERS OF THE 1997 BOARD

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 Administrator
 Police Association
 of Ontario

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Roger Richard
 Superintendent of Business
 The Lennox & Addington
 County Board of Education

2nd Vice Chair
Susan O'Gorman
 Public Health Nurse
 York Region
 Public Health Department

Past Chair
Joanne Fulkerson
 Senior Manager
 Human Resources
 Thunder Bay Hydro

Nancy Bardecki
 Director, Municipal
 Finance Branch
 Ministry of Municipal
 Affairs & Housing

Fayne Bullen
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Anne Dubas
 Public Health Nurse
 Dept. of Public Health
 City of Toronto

Michael Fenn
 Chief Administrative Officer
 Regional Municipality of
 Hamilton-Wentworth

Wasim Hassan
 Director Utility Practices
 Municipal Electric
 Association

Peter Leiss
 Horticulturalist
 City of Etobicoke

Gary Mugford
 Firefighter
 City of Toronto
 Fire Department

Donald Ross
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James Sherlock
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 Halton Separate School
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Wasim Hassan

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President & CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance & Administration

Tom Gunn
Senior Vice President
Investments

Gillian Platt
Senior Vice President
Human Resources

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Watson Wyatt Worldwide

Auditors
KPMG

Legal Advisor
Osler, Hoskin & Harcourt

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr D. Lewis



ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

One University Avenue, Suite 1000, Toronto, Ontario M5J 2P1
(416) 369-2400 • 1-800-387-0813 • E-mail: client@omers.com

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ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD



ANNUAL REPORT

1997



*Working
together
for your
retirement*

Our Vision

OMERS will be an autonomous, self-funded pension plan managed by and for its members and employers.

OMERS will provide a choice of pension options for employees engaged in the delivery of local government services.

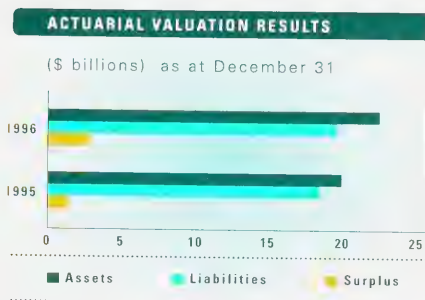
OMERS will keep its "pension promise" through prudent investment and cost effective management.

Our Core Values

"We provide high quality service to all our clients."

"We treat each other with respect, fairness, trust and dignity."

THE PLAN SURPLUS

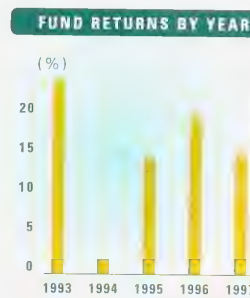


The actuarial valuation of the plan at December 31, 1996 indicates a surplus of \$2.8 billion. The plan surplus is projected to grow for the next few years.

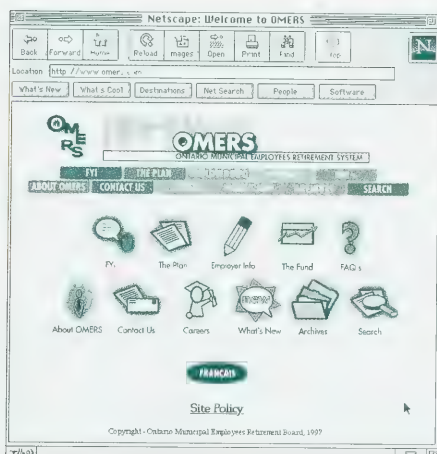
The surplus allowed the OMERS Board to implement a series of initiatives that, over the next five years, will save plan members and local government employers a total of \$1.5 billion.

PERFORMANCE The total return for the Fund in 1997 was 14.8%. These earnings are essential to OMERS being able to maintain stable and reasonable contribution rates over the long term, provide full pension indexing, and ensure the long term financial stability of the plan.

In 1997, these earnings also allowed OMERS to begin the process of reducing member and employer contributions by approximately one third for a five year period.



IMPROVING SERVICE



In 1997, OMERS continued with changes to its pension communications system. The new OMERS web site (www.omers.com) was well received by our members and provides an additional vehicle for communications.

The Membership Services System redevelopment project saw considerable progress throughout the year with its construction phase commencing. The project, which includes the rebuilding of the pension administration computer system, will be completed early in 1999 and its improved efficiency will meet members' and employers' needs with faster and more flexible service.



Working together for your retirement

The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 by the Ontario Government as a multi-employer pension plan for employees of local governments in Ontario. A total of 1,129 municipalities, boards, school boards and commissions participate in the plan.

Managed by a 13 member Board appointed by the Ontario Government, OMERS is operated on behalf of local government employees and employers. Five members of the Board are employees of local governments, one is a pensioner, four are officers of the participating employers, two are elected or appointed officials of municipalities or local boards, and one member is a Provincial official.

OMERS is a defined benefit pension plan financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund.

Our Mission

Our responsibilities are:

- to provide fully-funded pension benefits for reasonable and stable contribution rates,
- to invest the funds prudently, for long-term growth at acceptable risk levels, to meet plan liabilities,
- to distribute timely and accurate pension information to members and employers,
- to provide high quality service to all our clients, in an effective and efficient manner,
- to promote the pension interests of our plan members and employers, and
- to provide a positive and equitable working environment which will attract and retain highly motivated employees.

OMERS accomplishments in 1997 were focused on meeting the changing needs of our employers and members while strengthening the accountability of the Board. It was a year that included such highlights as the approval of a changed investment asset mix, the implementation of a five year surplus management initiative, a strengthened organizational structure for OMERS and the addition of enhanced consultation and communications processes. These successful initiatives were achieved in conjunction with continued solid returns on our investments.

After a comprehensive study and review of possible asset classes, expected returns and risk characteristics, a revised asset mix—or where we place our investments—was adopted for the Fund. Changes were made in the percentage of investment in different assets and, to achieve better diversification, the amount of international investing was increased.

The OMERS pension plan continues to be fully funded with sufficient assets to meet all pension plan liabilities. In fact, the plan is in a surplus position. This surplus allowed the Board to implement a series of initiatives that, over the next five years, will save plan members and local gov-

ernment employers a total of \$1.5 billion in contributions.

A one-third reduction in contribution rates puts money back into the pockets of thousands of local government employees across Ontario and saves an equivalent amount for their employers. When local government saves money, local tax-payers also save money—a further benefit to this win-win initiative.



The surplus management initiative is also in keeping with the OMERS philosophy of members and employers sharing equally in contributions, liabilities and surpluses of the plan. The responsiveness of the Board in producing significant savings for the local government sector in a time of financial distress and reorganization was extremely well received.

A comprehensive review of our real estate operations was concluded in 1997. This resulted in all real estate activity being brought in-house under the direct responsibility of the OMERS Board. Restructuring of the real estate group also reintegrated all investment activities of the Fund. Additionally, reorganization of the Investment Division was completed with a refocus on the overall performance of the Fund.

With ongoing changes in real estate markets, a shift in some of the major players, plus the introduction and use of new real estate investment vehicles, the move to a new structure for OMERS was both responsible and prudent.


Responsibility means accountability. Changing organizational structure—as we did for our real estate portfolio—is one way to achieve accountability. Better consultation and communications processes are another way. During 1997, the Board pursued new initiatives in both the content and the frequency of consultations with our diverse membership of 1,129 employers and the various unions and associations. Consensus on the surplus management initiative was achieved as a direct result of this improved consultation process.

In a year that saw some severe market fluctuations, OMERS continued to achieve good investment results. Short-term market fluctuations do not affect the soundness of the plan because the OMERS Fund's investments are geared to the long term. The OMERS Fund grew by \$3.7 billion over 1996, closing the year with a return of 14.8 per cent. The total value of the Fund at the end of 1997 was \$29.1 billion. The four year annual rate of return was 12.3 per cent, exceeding by a substantial mar-


gin the targeted performance required to fully meet the pension promise. In fact, the Fund's consistently strong performance is the major factor driving the Board's surplus management initiatives.

The local government environment continued to shift throughout the year, putting new demands on the OMERS plan. A theme of responsiveness and responsibility means that we will continue our extensive consultation and communications

process, advocate on behalf of our plan participants in areas of public policy, protect shareholder interests in the companies we invest in, and continually strive for use of best practices in our own organization.



ROGER RICHARD
Chair



DALE E. RICHMOND
President and CEO

RETURNS BY ASSET CLASS AND THEIR BENCHMARKS

	\$ millions invested	% of Fund	1 year %	4 years %	10 years %
Total OMERS	29,376.2	100.0%	14.8	12.3	11.4
Consumer Price Index			0.7	1.2	2.7
Consumer Price Index + 4.25%			5.0	5.5	6.9
Fixed Income	10,625.3	36.2%	10.2	8.8	10.9
D.S. Barra/Scotia McLeod Universe Bond Index			9.7	9.2	11.6
Canadian Stocks	10,366.0	35.3%	18.2	16.2	12.4
TSE 300			15.0	14.0	11.0
Private Placement-Equity	473.6	1.6%	30.7	21.0	8.4
TSE 300			15.0	14.0	11.0
International Stocks	5,182.0	17.6%	16.1	13.0	13.4
Salomon Global BMI (ex-Canada)			22.4	17.1	—
Real Estate (office and retail)	2,729.3	9.3%	14.8	8.9	—
Russell Canadian Office & Retail Property Index			18.5	8.2	—

THE FUND

The OMERS Fund's investment strategy is to provide long-term, stable growth, balancing a continuing good rate of return with acceptable risk. This strategy again provided solid returns in 1997, allowing the Fund to close out the year at close to \$30 billion.

The total return for the Fund in 1997 was 14.8%. These earnings are essential to OMERS being able to maintain stable and reasonable contribution rates over the long term, provide full pension indexing, and ensure the long term financial stability of the plan.

In 1997, these earnings also allowed OMERS to begin the process of reducing member and employer contributions by approximately one

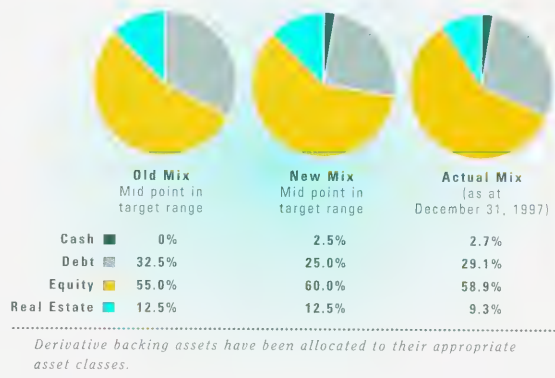
third for a five year period. These contribution reductions, which commence in January 1998, are only possible because of a sustainable surplus. Low inflation rates and low wage growth also contributed, but it's the third element of continued high performance in investment returns that allows OMERS to provide these savings to our members and employers.

Asset Allocation

The OMERS investment mix—how our assets are allocated—sets the objectives for both the Fund and for the various investment portfolios within the Fund. The asset mix was changed early in 1997, and the asset allocation as at December 31 is shown in the accompanying graph.

Fund managers were faced with some wild market fluctuations in the latter part of 1997. Despite these fluctuations, the Fund exceeded its benchmark for Canadian equity investment in 1997. Despite the volatility, the new asset mix provides the returns needed to fully fund the plan.

ASSET ALLOCATION



“Our new asset mix
is a response to
changing markets,
investment vehicles,
and levels of risk”

Derivatives

Any large and complex fund needs the flexibility to respond quickly when required. The derivatives programme provides that flexibility. Derivatives are used to adjust and rebalance the OMERS Fund's asset mix and international allocation without adversely affecting other portfolios.

OMERS is able to effectively reallocate lower yielding short term money market investments into higher yielding equity and bond markets, reflecting the Fund's new asset mix proportions and markets.

In 1997, the derivative programme's notional value increased from \$1.6 billion in 1996 to \$3.0 billion at year end.

One of the issues that drove the change in the Fund's asset mix was the reduced availability of Canadian government bonds, resulting in less opportunity for investing in fixed income securities within Canada. Because of this and other changes in the Canadian investment environment, OMERS reallocated some of its investments, decreasing the allocation to domestic fixed income and increasing the allocation to foreign bonds and domestic and foreign equities.

CONSOLIDATED INVESTMENT ASSETS

Market Value as at December 31, 1997 (000's)	1997	1996
Fixed Income Investments		
Cash and Short Term	\$ 2,759,724	\$ 1,760,895
Ontario Debentures	804,236	828,480
Marketable Bonds:		
• Canadian	4,467,437	3,788,450
• International	1,216,488	446,098
Private Placements – Debt	112,958	92,222
Mortgages:		
• Residential - Insured	949,876	397,263
• Non-residential	263,544	1,170,875
• Real Estate Held for Resale	51,000	69,341
Total Fixed Income Investments	\$ 10,625,263	\$ 8,553,624
Equity Investments		
Stocks		
Canadian:		
• Indexed	\$ 1,738,461	\$ 1,351,577
• Active	8,627,555	8,480,959
International:		
• Indexed	1,763,630	1,259,713
• Active	3,418,313	3,098,035
Total Stocks	15,547,959	14,190,284
Private Placements – Equities	473,643	421,942
Total Equity Investments	\$ 16,021,602	\$ 14,612,226
Real Estate	\$ 2,729,349	\$ 2,450,121
Total Investments at Market Value	\$ 29,376,214	\$ 25,615,971

Fixed Income

Fixed income instruments, as well as equities, continued to perform well in 1997. The Fund's fixed income assets are managed in a number of specific portfolios, with both quantitative and active management styles assisting the Fund in maximizing its performance.

Managed quantitatively, the OMERS Canadian core bond portfolio holds provincial and federal bonds. A Canadian active bond portfolio adds municipal and corporate bonds, as well as an interest rate anticipation strategy.

The foreign bond fund was valued at \$1.2 billion at year end. With a return of 6.3%, it outperformed the J.P. Morgan Government Bond (Non-Canada Traded) benchmark of 5.8%.

In addition to being an asset class, money market investments serve two objectives: cash management, and supporting the derivative portfolios. For cash management, investments are in credit instruments with a very short duration to meet the plan's daily cash flow requirements. Assets backing derivatives are necessary to ensure that derivative instruments are entered into only on an unlevered basis.

OMERS maintained the high quality of its mortgage portfolio in 1997 despite a very competitive market. The mortgage department booked \$124.9 million in new business in 1997, from a total of \$2.3 billion worth of loan proposals reviewed. Interest rates remained low throughout the year, although the yield on new loans is still somewhat higher than that of a Government of Canada bond of a similar term. The return for mortgages in 1997 was 4.2% against the Nesbitt Burns/DS Barra 5 year bond rate benchmark of 7.0% and private debt, at 14.1%, exceeded the Nesbitt Burns/DS Barra 5 year bond rate benchmark of 7.0%.

1997 FIXED INCOME RETURNS VS BENCHMARKS



Equities

“Well managed companies, with strong, focused governance processes, generally produce better long-term returns for all investors”

With markets going from strength to strength in 1996 and most of 1997, a substantial correction was expected later in the year. By year end, markets were unstable with the Asian markets showing the largest declines. Nevertheless, global markets continued to provide good results through most of the year. Similarly, North American markets also provided generally good returns as did European markets boosted by fairly strong economies.

Domestic

Canadian equity markets performed well throughout most of the year, resulting in an increase in the market value of the OMERS actively managed Canadian equity portfolios of \$0.2 billion.

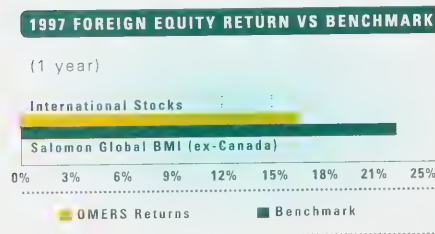
The core fund also grew by \$0.2 billion in 1997, and returned 17.8% compared to a total return of 15.0% for the TSE 300. The portfolio's four year annual average return of 17.5% also compares favourably to the TSE's average of 14.0%.

The Canadian indexed equities portfolio was valued at \$1.7 billion at year end, representing 16.8% of the Fund's total. The portfolio returned 15.4% in 1997, compared to 15.0% for its benchmark, the TSE 300.

In order to provide equity investments with diversification of management style, OMERS employs external portfolio managers. The external managers also bring expertise in particular market sectors. As at December 31, the Canadian external funds programme had \$2.2 billion placed with 10 external management companies. This programme saw a return of 18.3%, compared to the TSE 300's 15.0% for the year. The private equity portfolio totalled \$283.3 million at year end, an increase of \$96.3 million from the previous twelve months. Investment income earned totalled \$96.5 million.

International

The U.S. external fund programme had \$690 million at the end of 1997. This programme was restructured in 1996. After a stellar first year in 1996, most of the managers had a difficult 1997 because of volatile markets. However, two years is a short time on which to judge their performance, and most are near or ahead of their benchmarks since inception despite the problems in 1997.



Two U.S. indexed equity funds are also managed by OMERS. One, a portfolio of larger capitalization stocks, is matched to the S&P 500 index. The other is an S&P 400 mid-cap value fund.

The OMERS non-North American composite underperformed its benchmark by 16 basis points in 1997. The programme's assets were \$2.7 billion at year end, and the four-year average performance underperformed its benchmark, the Salomon/FR EPAC, by 137 basis points.



OMERS Realty Corporation

By year end, OMERS Realty Corporation (ORC) owned or held an interest in a total of 37 properties comprising 19.7 million square feet of gross leasable area. All properties were well leased with an average of 97.9% occupancy.

The market value of retail and office properties held by OMERS at year end was \$2.7 billion, or approximately 9.3% of the total OMERS Fund.

Performance for the year showed a 14.8% total return compared to an 18.5% for the Russell Canadian Office and Retail Property Index, the industry benchmark.

Early in 1997, the Board completed a review of ORC. A report, presented to the Board in January, discussed evolving real estate best practices, analysed trends in public sector pension fund investments in real estate throughout North America, compared various organizational models, and recommended changes to position OMERS for the future and for a changing environment.

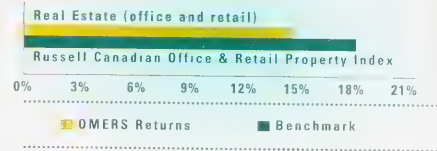
**“In 1997,
after study, OMERS
recommitted to
real estate as an
asset class”**

The OMERS Board adopted a multi-manager structure, with external managers augmenting ORC's role in the management of the Fund's direct real estate investments. The accountability for all real estate decisions was placed with the OMERS Board, and all real estate assets were integrated into the investment division.

These 1997 initiatives recommitted OMERS to real estate as an asset class. It is one which provides diversification of the OMERS Fund with an added hedge against inflation. Returns over the long term have been somewhat higher than bond returns and slightly lower than equity returns, with lower volatility than either bonds or equities.

1997 REAL ESTATE RETURN VS BENCHMARK

(1 year)



MANAGING THE PLAN

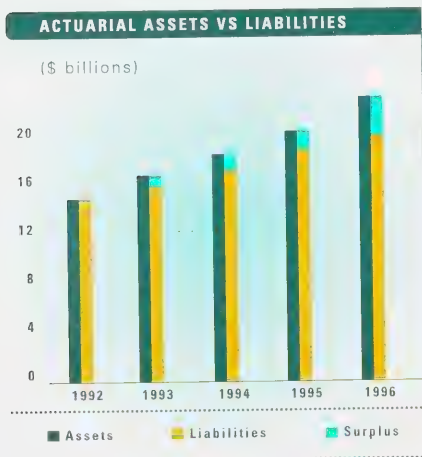
There are two key elements in managing the OMERS plan's funding—maintaining a surplus position sufficient to meet the pension promise, and keeping contribution rates stable for employers and members. OMERS went one step further in 1997, initiating a plan for managing its surplus that will reduce member and employer contributions by one third for a five year period. The programme was effective with the pay period that included January 1, 1998.

The OMERS initiative included provisions that will:

- reduce employer and member contributions by two percentage points for five years;
- increase pensions to ensure all OMERS pensioners receive 100% of the increase in the Consumer Price Index since their pensions began;
- increase the formula for all current and future surviving spouse's pensions from 60 to 66 $\frac{2}{3}$ %; and
- enhance early retirement provisions for OMERS members who retire over the next five years.

OMERS will carefully monitor the initiative to ensure that the plan's 35 year track record in delivering the pension promise will not be jeopardised. A combination of high performance in investment returns, low inflation and low wage growth—and the resulting increase in the surplus—left OMERS in a position to initiate this programme.

OMERS has a long history of sound management of plan funding. In the past, responsible funding has allowed OMERS to



offer such programmes as unreduced early pensions (when age and service criteria are met), and indexing. In 1993, the introduction of Social Contract early retirement and other provisions, costing approximately \$425 million, saved many jobs for younger members.

The surplus also provides for a Funding Stabilization Reserve (FSR), which is equal to 5% of the plan's liabilities. Key to the maintenance of contribution rate stability, the FSR also serves as a buffer against fluctuations in returns and against actuarial estimates of liabilities being different from actual experience.

The actuarial valuation of the OMERS plan as of December 31, 1996, conducted by Watson Wyatt Worldwide, showed a surplus of \$ 2.8 billion.

“In 1997,
the Board pursued
new approaches for
consultation with our
membership”

Responsive Management

While responsiveness and responsibility are key to all of OMERS activities, they are perhaps most evident in meeting the diverse needs of the plan participants. The Board has shown its commitment to these two words in 1997 in all its decisions and actions.

Nineteen-ninety-seven was a year of considerable change and financial pressure for local government throughout the province. Many municipalities were amalgamated, with the largest being the new City of Toronto. These changes will continue to affect local governments well beyond the end of 1997.

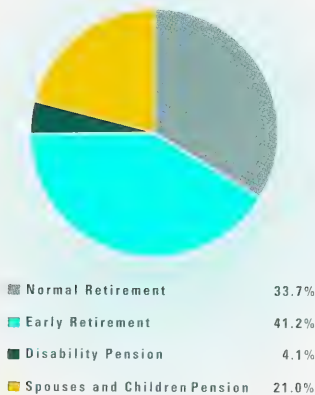
The OMERS Board continues to monitor the changing local government scene and will actively seek ways in which OMERS might help members and employers deal with these changing circumstances.

Additional recommendations before the Ontario Government include provisions for the portability of OMERS pensions to private sector plans to accommodate members who are moving to the private sector. The Board has also requested changes in the definition of "eligible OMERS employer" to permit not-for-profit organizations providing local government services to

“OMERS surplus management initiative is timely in light of the many changes and financial pressures in the local government sector”

PENSION PROFILE

(as at December 31, 1997)



join the plan and to allow plan members who are transferred as part of a divestment or outsourcing to be grandfathered in the OMERS plan.

Pension Increase

An increase of 1.62%, equalling 100% of the September-to-September Consumer Price Index (CPI) increase, was applied to pensions on January 1, 1998. The increase is composed of two parts: the guaranteed pension increase—70% of the increase in the CPI, or 1.13%; and an ad hoc increase—30% of the increase in the CPI, or 0.49%.

As part of the five year surplus management initiative, OMERS also increased payments to ensure all of its pensioners receive 100% of the increase in the Consumer Price Index since their pensions began.

Improving Service

In 1997, OMERS continued with changes to its pension communications programme. The new OMERS web site (www.omers.com) was well received by our members and provides an additional vehicle for communication. The site received more than 500,000 "hits" in eight months of operation.

The Membership Services System redevelopment project saw considerable progress throughout the year with its construction phase commencing. The project, which includes the rebuilding of the OMERS pension administration computer system, will be completed early in 1999 and its improved efficiency will meet members' and employers' needs with faster and more flexible service.

**"the OMERS
web site gets a
Benefits Canada A+ for
on-line communications
ingenuity"**

- Benefits Canada Magazine

Responsible Management

OMERS has a major role to play in advocating the interests of plan members in numerous arenas. As one of Canada's largest pension plans, we have a responsibility to ensure that the interests of our 260,000 active members and pensioners are heard.

Over the past year, OMERS has concentrated on tracking and monitoring issues and trends which might affect the plan and plan members. While we continue to improve member communications, it became increasingly evident that OMERS needed to formalize communications with other key audiences and stakeholder groups.

Activities such as the surplus management programme and our commitment to move to autonomy have made OMERS more visible. This higher visibility will continue for the foreseeable future. We are managing our internal and external communications in order to provide current and relevant information to our members and other stakeholders.

The "Year 2000" Problem

With the year 2000 rapidly approaching, time is at a premium to address the Year 2000 date programming code problem. Nearly every organization, including OMERS, will be faced with the Year 2000 issue. The date code problem refers to the fact that years ago program developers, to make the best use of limited computing resources, created databases and programs to store and process the year as a two-digit field (for example, 1998 as "98"). Therefore in the year 2000, many computer systems will register "00" as 1900 rather than 2000.

However, the problem is more complex than it seems. Initially, many organizations regarded this as a problem to be dealt with by their IT departments, but now are realizing that the problem is much broader. Any equipment that has a computer chip component is at risk. The Year 2000 is a general business management problem and OMERS has approached the issue from this perspective.

OMERS is conducting a comprehensive review of its core systems and programs to ensure that they are Year 2000 compliant. As well, OMERS is actively looking at the broader issues in its business areas, for example the preparedness of the companies we invest in, as well as our suppliers.

Specifically, the plan's proactive approach includes:

- completing a high level review of its Year 2000 technology exposure;
- beginning projects to ensure Year 2000 compliance for our custom-built business systems, specifically our current membership and pension systems;
- sending letters to our software and hardware suppliers concerning their level of preparedness;
- gathering information on Year 2000 issues from our "investee" companies, with follow up discussions planned where required;
- reviewing infrastructure work surrounding the electronic network and desktop computing systems; and
- communicating with employers, members and pensioners highlighting the Year 2000 issue.

“OMERS heads
towards the new
millennium in a
very strong financial
position”

OMERS is working in a planned fashion to conclude the necessary adjustments before the end of 1998 to ensure its operations can be performed correctly. It is further planned, during 1999, to test many systems, both internal and vendor provided, to ensure they actually work.

Looking Towards The Millennium

With the Fund close to \$30 billion at December 31, 1997 and showing signs of continuing steady growth, OMERS heads towards the new millennium in a very strong financial position. Measured against industry benchmarks, the plan also consistently delivers efficient and high quality service at a reasonable cost.

Although OMERS looks ahead with confidence, the plan is not immune to external change. Managing change has become a focus for most organizations, and OMERS will continue to adapt to changing circumstances for its members through policy initiatives and a continued commitment to service—responsibility and responsiveness. At the same time, OMERS will continue to apply a prudent and disciplined approach to investing the Fund for maximum returns.

As the '90s wind down and we prepare to celebrate the new millennium, members can rest assured that the high levels of responsiveness and responsibility they have received for 35 years will continue.

In 1997, the OMERS Board showed sound leadership, thoughtful and speedy action, and responsible decision-making on a number of key issues which faced the organization during the year. This leadership and action will also ensure the plan's continued success and financial soundness in the future.

	1997	1996	1995	1994	1993
Employers					
Municipalities	534	534	534	529	538
School boards	133	133	134	134	134
Other local boards	462	464	462	457	448
	1,129	1,131	1,130	1,120	1,120
Contributing members					
by employer					
Municipalities	90,471	92,342	94,068	94,964	95,462
School boards	52,971	52,495	52,926	52,637	53,076
Other local boards	40,188	40,775	41,283	41,397	41,638
Inactive groups	2,521	238	7	35	21
	186,151	185,850	188,284	189,033	190,197
by sex					
Female	92,297	91,557	92,146	91,618	91,001
Male	93,854	94,293	96,138	97,415	99,196
	186,151	185,850	188,284	189,033	190,197
by normal retirement age					
Age 65	162,738	162,614	165,085	165,989	167,082
Age 60	23,413	23,236	23,199	23,044	23,115
	186,151	185,850	188,284	189,033	190,197
Terminated members who have					
elect a deferred pension	8,873	8,754	8,532	8,163	7,947
Number of pensioners by type of pension					
Normal retirement	23,333	23,368	23,212	22,914	22,538
Early retirement	28,502	27,304	23,843	20,072	16,165
Disability pension	2,842	2,836	2,846	2,814	2,743
Spouses and children	14,501	13,850	13,261	12,628	11,987
	69,178	67,358	63,162	58,428	53,433
Total membership comprising active members,					
inactive members and pensioners	264,202	261,962	259,978	255,624	251,577
Number of members enrolled per year	8,061	7,285	9,225	8,440	8,112
Number of new retirements per year	2,779	6,271	5,459	5,804	3,688
Number of other terminations per year	4,981	3,448	4,515	3,800	4,018
Net increase (decrease) in active membership	301	(2,434)	(749)	(1,164)	406

\$ Millions	1997	1996	1995	1994	1993
*Investments at market					
Ontario debentures	804.2	828.5	818.1	995.5	1,297.8
Marketable securities	28,572.0	24,787.5	20,458.9	19,650.3	18,791.3
	29,376.2	25,616.0	21,277.0	20,645.8	20,089.1
*Assets at market value for					
Total Fund	29,108.4	25,378.3	21,212.7	18,388.8	17,778.1
Liability for:					
Supplementary benefits agreements	109.5	120.6	120.6	133.9	139.3
Administered pension funds	394.8	341.2	344.9	2,463.3	2,361.4
	29,612.7	25,840.1	21,678.2	20,986.0	20,278.8
Investment income earned (income includes unrealized gains/losses)					
Basic plan	3,692.2	4,074.0	2,624.5	310.2	3,365.3
Supplementary benefits agreements	11.4	8.8	11.5	12.7	8.4
Administered pension funds	50.6	55.1	380.8	44.4	447.9
	3,754.2	4,137.9	3,016.8	367.3	3,821.6
Contributions received for					
Basic plan	868.3	874.1	869.1	870.0	890.0
Basic plan unfunded liabilities	20.9	7.5	5.4	9.3	11.6
Supplementary benefits agreements	0.3	0.3	1.1	0.1	0.6
	889.5	881.9	875.6	879.4	902.2
Payments to members					
Pensions paid	698.9	661.4	570.1	490.7	414.3
Contributions and interest refunded	103.5	88.5	66.7	50.7	43.5
Transfers to other plans	8.9	5.8	6.5	4.7	5.6
	811.3	755.7	643.3	546.1	463.4
Administrative expenditures					
Pension programme	21.6	19.8	19.6	19.6	18.4
Investment programme	19.8	17.3	15.7	15.6	14.7
Elimination on consolidation	(1.1)	(2.5)	(2.4)	(2.4)	(2.2)
	40.3	34.6	32.9	32.8	30.9
Total Fund annual rates of return					
Dollar-weighted return on book value	11.9%	10.9%	7.9%	9.5%	10.2%
Time-weighted return on market value	14.8%	19.3%	14.2%	1.8%	23.7%

**market value as at December 31*

**Watson Wyatt**

A member of the PricewaterhouseCoopers network

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1996 using the Unit Credit Actuarial Cost Method, with projection of

earnings. Our valuation conformed with the Standard of Practice for Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The actuarial valuation of OMERS as at December 31, 1996 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion, the data are sufficient and reliable for the purposes of actuarial valuation.

In our opinion, the assumptions adopted for our actuarial valuation of OMERS are appropriate, and the methods employed are consistent with sound actuarial principles. Nonetheless, the experience of OMERS in the future may be different from the actuarial assumptions, and may result in gains or losses which will be revealed in future actuarial valuations.

The results of the actuarial valuation of the registered pension plan benefits disclosed total Actuarial Liabilities of \$19,660.126 million in respect of benefits accrued for service to December 31, 1996, including the effect of an ad hoc adjustment to pensions as at January 1, 1997. The Actuarial Assets at that date were \$22,527.203 million indicating an actuarial surplus of \$2,867.077 million, of which \$982.967 million has been allocated to a Funding Stabilization Reserve by the Board. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 1996 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was \$33.199 million, leaving an overall actuarial surplus of \$2,833.878 million.

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1997 taking into account amendments made to the Plan up to December 31, 1997. Further, we have calculated the Actuarial Assets at December 31, 1997.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1997 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date.

Respectfully submitted

WATSON WYATT & COMPANY

Martin J.K. Brown, F.I.A.

Fellow, Canadian Institute of Actuaries

March 27, 1998



We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1997 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 1997 and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles.

A handwritten signature in blue ink, appearing to be 'KPMG' followed by a stylized flourish.

Chartered Accountants

Toronto, Canada

March 27, 1998

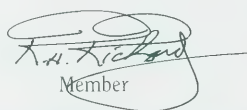
CONSOLIDATED STATEMENT OF NET ASSETS

As at December 31, (000's)	1997	1996
ASSETS		
Investments (note 2)	\$ 29,376,214	\$ 25,615,971
Accrued income	132,917	112,958
Amounts due from pending trades	111,033	156,784
Contributions receivable	73,010	67,211
Other assets (note 4)	34,398	40,970
Total Assets	29,727,572	25,993,894
LIABILITIES		
Due to administered pension funds (note 5)	394,844	341,244
Amounts payable from pending trades	102,074	155,695
Other pension liabilities	122,297	118,677
Total Liabilities	619,215	615,616
NET ASSETS (note 6)	\$ 29,108,357	\$ 25,378,278

The accompanying notes to consolidated financial statements are an integral part of this statement.

Signed on behalf of the Board


Member


Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31, (000's)	1997	1996
INCREASES IN NET ASSETS		
Contributions (note 7)	\$ 889,546	\$ 881,886
Net investment income (note 8)	3,692,175	4,074,006
Total Increase	4,581,721	4,955,892
DECREASES IN NET ASSETS		
Benefits (note 9)	811,338	755,739
Administrative expenditures (note 10)	40,304	34,571
Total Decrease	851,642	790,310
INCREASE IN NET ASSETS	3,730,079	4,165,582
Net assets at beginning of year	25,378,278	21,212,696
NET ASSETS AT END OF YEAR	\$ 29,108,357	\$ 25,378,278

The accompanying notes to consolidated financial statements are an integral part of this statement.

GENERAL

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the *Ontario Municipal Employees Retirement System Act (OMERS Act)*. The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the *Ontario Pension Benefits Act*, Registration #0345983.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The *Pension Benefits Act (PBA)* of Ontario requires that participating employers fund the benefits determined under the plan. In accordance with the PBA the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability waivers and pensions, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the *OMERS Act* and *Regulation* or by contacting OMERS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of real estate properties jointly owned with others.

Investments

Investments are recorded as of the trade date and are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and portfolio credit risk that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets as unrealized appreciation of investments.

Fair values of investments are determined as follows:

- i) Short-term deposits are recorded at cost, which approximates fair value.
- ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market values are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.
- iii) Real estate, composed primarily of income producing properties, is valued based on appraised values determined annually by independent appraisers in accordance with generally accepted appraisal practices and procedures, based mainly on discounted cash flows. In performing the appraisals, certain assumptions are made with respect to future economic conditions and rates of return. Jones Lang Wootton Canada Inc. and Colliers Macaulay Nicolls Inc. are the firms of independent appraisers used.
- iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk.
- v) Interest rate swaps, bond and equity index swaps, bond futures contracts, equity index futures contracts, and forward foreign exchange contracts are valued at year-end market prices determined by quoted market values where available or discounted cash flows using current market yields, where quoted market values are not available.

Investment income, which is recorded on the accrual basis, includes dividends, interest income, and real estate operating income, gains and losses that have been realized on disposal of investments as well as the unrealized appreciation in the fair value of investments.

Non-Investment Assets

The fair value of contributions receivable, accrued income, amounts due from pending trades, other assets, due to administered pension funds, amounts payable from pending trades and other pension liabilities approximate their carrying amounts.

Foreign Currency Translation

Foreign currency denominated transactions, as well as amounts carried at cost in the financial statements, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

The fair values of foreign currency denominated investments included in the statement of net assets are translated into Canadian dollars at the year-end rate of exchange. Foreign exchange gains and losses arising from this translation are included in unrealized appreciation of investments.

NOTE 1 - RESPONSIBILITIES OF THE ACTUARY AND EXTERNAL AUDITORS

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are appointed by the Board. Their responsibility is to report to the Board regarding the fairness of presentation of OMERS net assets, and changes in net assets as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuary for the actuarial liabilities as disclosed in the notes to the financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

NOTE 2 - INVESTMENTS

(000's)	1997		1996	
	Fair Value	Cost	Fair Value	Cost
INTEREST BEARING INVESTMENTS				
Cash and short-term deposits	\$ 2,759,724	\$ 2,759,724	\$ 1,760,895	\$ 1,760,895
Canadian bonds and debentures	5,271,673	4,722,144	4,616,930	4,171,657
Non-Canadian bonds	1,216,488	1,180,143	446,098	435,283
Private debt	112,958	109,739	92,222	89,887
Mortgages	1,264,420	1,206,501	1,637,479	1,489,209
	\$ 10,625,263	\$ 9,978,251	\$ 8,553,624	\$ 7,946,931
NON-INTEREST BEARING INVESTMENTS				
Canadian equities	10,366,016	6,509,617	9,832,536	6,469,055
Non-Canadian equities	5,181,943	3,850,514	4,357,748	3,471,810
Real estate	2,729,349	2,875,601	2,450,121	2,786,266
Resource properties	55,761	48,295	53,964	44,486
Canadian private equities	227,551	157,735	133,005	125,166
Non-Canadian private equities	190,331	158,597	234,973	203,645
	\$ 18,750,951	\$ 13,600,359	\$ 17,062,347	\$ 13,100,428
TOTAL INVESTMENTS	\$ 29,376,214	\$ 23,578,610	\$ 25,615,971	\$ 21,047,359

Included as mortgages are \$51,000,000 (1996 - \$69,341,000) of properties acquired by OMERS on foreclosure. These properties are held for sale and are carried at appraised values based on OMERS best estimate of the properties' net realizable value. Income earned on these assets in 1997 was \$3,209,858 (1996 - \$1,587,000).

NOTE 2 - INVESTMENTS (continued)

Term to maturity classifications of interest-bearing investments are based upon the contractual maturity of the securities and are as follows:

(000's)	1997					1996	
	Term to Maturity				Average	Average	
	Within 1 Year	1 to 5 Years	Over 5 Years	Total	Effective Yield	Total	Effective Yield
	(\$)	(\$)	(\$)	(\$)		(\$)	
Cash and short-term deposits	2,759,724	-	-	2,759,724	3.97%	1,760,895	3.05%
Canadian bonds and debentures	62,094	1,632,370	3,577,209	5,271,673	5.75%	4,616,930	6.77%
Non-Canadian bonds	24,457	569,657	622,374	1,216,488	5.39%	446,098	5.80%
Private debt	25,018	19,715	68,225	112,958	7.54%	92,222	8.26%
Mortgages	279,528	601,384	383,508	1,264,420	7.44%	1,637,479	6.10%
TOTAL	3,150,821	2,823,126	4,651,316	10,625,263	5.47%	8,553,624	5.84%

Average effective yield is based upon fair value as at the year-end date.

Cash and short-term deposits include backing assets for derivative instruments. The average effective yield adjusted for interest rate derivative instruments is 4.5% (1996 - 3.6%).

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 3.9% (1996 - 4.4%) of the Canadian bonds and debentures. Non-Canadian bonds are liquid and tradeable government debt issues consisting primarily of the 12 member countries of the Organization for Economic Co-operation and Development.

At December 31, 1997 the Fund held the following investments, each having a fair value or cost exceeding 1% of the fair value or cost of total investments:

(\$000's)	1997 Aggregate			1996 Aggregate		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Canadian equities	6	2,171,566	867,310	5	1,586,410	814,465
Real estate properties	2	693,000	621,400	4	993,377	1,056,933
Canadian bonds and debentures	2	578,270	472,040	2	590,671	502,001
	10	3,442,836	1,960,750	11	3,170,458	2,373,399

NOTE 2 - INVESTMENTS (continued)

Real estate investments above include ownership interest in the following properties, each of which are located in Toronto, Ontario: Scarborough Town Centre; and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through joint ventures. The fair value of OMERS proportionate share in these assets was \$1,238,375,000 at December 31, 1997 (1996 - \$1,182,580,000). The net income earned from OMERS investment in joint ventures was \$65,528,000 for the year ended December 31, 1997 (1996 - \$88,961,000) and is included in net investment income from real estate.

OMERS has guaranteed certain of the obligations of its joint ventures and is contingently liable for the obligations of its associates in certain joint venture developments. The assets of the joint ventures are available and are sufficient for the purpose of satisfying such obligations.

OMERS adheres to the concept of risk diversification in its investment policy. Part of this diversification is achieved through utilization of foreign investments. The two major foreign currencies represented in the Fund at December 31, 1997 are U.S. Dollars which represents 11.89% of the total fund (1996 - 8.37%), and Japanese Yen which represents 3.03% of the total fund (1996 - 3.48%).

OMERS participates in a securities lending programme whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 1997, securities with an estimated fair value of \$782.5 million (1996 - \$536.0 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of \$821.6 million (1996 - \$562.8 million).

NOTE 3 - DERIVATIVE FINANCIAL INSTRUMENTS

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset/liability management and to assist in the management of financial risks, including foreign exchange risks.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- **Swaps**, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.
- **Forwards and futures**, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;

NOTE 3 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- enters into derivative investment activities in combination with the cash and short-term deposits portfolio;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

OMERS credit risk exposure is represented by the receivable replacement value of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date. Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable.

All derivative instruments mature within one year except interest rate swap contracts with a notional value of \$520,000,000 (1996 - \$235,000,000) that mature between 2002 and 2004.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- Replacement cost:** represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

(000's)	1997				1996	
	Notional Value	Fair Value		Credit Risk (replacement cost)	Notional Value	Credit Risk (replacement cost)
		Gross Assets	Gross Liabilities			
Interest rate swap contracts	\$ 520,000	\$ 21,164	\$ -	\$ 21,164	\$ 235,000	\$ 11,301
Bond index swap contracts	-	-	-	-	200,000	2,309
Equity index swap contracts	420,409	8,435	(20,990)	8,435	220,500	8,243
Bond futures contracts	143,545	710	-	710	52,341	-
Equity index futures contracts	892,927	435	(1,235)	435	412,470	120
Forward foreign exchange contracts	1,065,777	9,649	(3,966)	9,649	442,689	8,579
TOTAL	\$ 3,042,658	\$ 40,393	\$ (26,191)	\$ 40,393	\$ 1,563,000	\$ 30,552

NOTE 4 - OTHER ASSETS

(000's)	1997	1996
Long term receivables (1)	\$ 27,777	\$ 34,981
Other receivables	6,621	5,989
	\$ 34,398	\$ 40,970

- (1) Under the terms of the *OMERS Act* and *Regulation* certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long-term receivables to be paid, with interest, over a period not to exceed fifteen years. The fair value of the long-term receivables, which are valued using discounted cash flows using current market yield, is approximately \$27,654,000 (1996 - \$35,785,000).

NOTE 5 - DUE TO ADMINISTERED PENSION FUNDS

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

NOTE 6 - NET ASSETS

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	1997	1996
Assumed rate of inflation	4.0%	4.0%
Assumed rate of pensionable earnings increases	5.5%	5.5%
Assumed actuarial rate of return on plan assets	7.5%	7.5%

The extrapolation of the actuarial valuation to December 31, 1997 which follows, takes account of amendments made to the plan up to December 31, 1997, except for the Five Year Initiative, which is reported on separately. The 1996 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1996.

NOTE 6 - NET ASSETS (continued)

(000's)	1997	1996
Fair value of net assets at end of year*	\$ 29,100,759	\$ 25,372,297
Adjustment to the fair value for actuarial purposes	(3,310,250)	(2,845,094)
Actuarial value of net assets at end of year	25,790,509	22,527,203
Actuarial present value of accrued pension benefits at beginning of year	19,660,126	18,529,599
Ad hoc increases to pension benefits	37,000	31,211
Interest accrued on benefits	1,478,000	1,394,771
Benefits accrued	893,000	981,919
Benefits paid	(811,338)	(755,739)
Experience gains	(681,788)	(521,635)
Actuarial present value of accrued pension benefits at end of year**	20,575,000	19,660,126
Full earnings pension assets	7,598	5,981
Full earnings pension liability	37,000	39,180
Net liability of full earnings pension	29,402	33,199
	20,604,402	19,693,325
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	\$ 5,186,107	\$ 2,833,878

*Excludes full earnings pension assets

**Before consideration of the Five Year Initiative

A portion of the excess of actuarial value of net assets over the actuarial present value of accrued pension benefits has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve for 1997 is \$1,029 million (1996 - \$983 million).

The full earnings pension benefit was set up within the *OMERS Act* and *Regulations* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*.

Five Year Initiative

The actuarial valuation of the plan at December 31, 1996 indicated a surplus of \$2.867 billion (excludes net liability of full earnings pension \$0.033 billion), giving the plan a funded ratio of 115%. Under the provisions of the *Income Tax Act*, steps must be taken to reduce the funded ratio below a maximum level of 110%; a reduction in surplus of \$0.901 billion is required to accomplish this.

In anticipation of the growing funded ratio, during 1997, the OMERS Board proposed and the Ontario Government approved the following changes to OMERS:

NOTE 6 - NET ASSETS (continued)

- (1) Members' and employers' contributions have been reduced by two percentage points, effective in 1998. The new rates are:
- for Normal Retirement Age 65: 4.0% of contributory earnings up to the Yearly Maximum Pensionable Earnings (YMPE), 5.5% on contributory earnings above the YMPE;
 - for Normal Retirement Age 60: 5.0% of contributory earnings up to the Yearly Maximum Pensionable Earnings (YMPE), 6.5% on contributory earnings above the YMPE.

The reduction in contributions is intended to last five years, but there will be a review of the plan surplus each year to determine the size and expected period of any continuing reduction.

- (2) The age plus years of service factor which entitles members to an unreduced early retirement pension has been reduced from 90 for Normal Retirement Age 65 members and 85 for Normal Retirement Age 60 members to 85 and 80 respectively for members who retire on or after November 30, 1997 and on or before December 31, 2002.
- (3) The early retirement reduction factor for members not entitled to an unreduced early retirement pension has been reduced from 5.0% per year to 2.5% per year for members who retire on or after November 30, 1997 and on or before December 31, 2002.
- (4) Survivor pensions have been increased from 60.0% to 66.67 % effective January 1, 1998.
- (5) All pensions for retired and deferred vested members of OMERS have been increased, if necessary, to match the increase in inflation from date of retirement or termination to January 1, 1998. Similar increases have been applied to the deemed earnings of members on disability waiver.

The changes described above, plus the ad hoc inflation adjustment granted at January 1, 1998, are expected to reduce the surplus by \$0.557 billion as at December 31, 1997. The surplus will be further reduced by approximately \$0.3 billion during 1998 and each subsequent year while the contribution reduction is in effect. In combination, these measures will eliminate the excess surplus identified in the December 1996 actuarial report.

NOTE 7 - CONTRIBUTIONS

(000's)	1997	1996
Members	\$ 427,708	\$ 429,952
Employers, current service	427,708	429,952
Employers, long-term receivables and interest thereon (note 4)	20,904	7,500
Transfers from other pension plans	6,476	8,599
Other contributions	6,750	5,883
	\$ 889,546	\$ 881,886

NOTE 8 - NET INVESTMENT INCOME

(000's)	1997	1996
Short-term deposits	\$ 64,199	\$ 48,801
Canadian bonds	378,497	312,602
Non-Canadian bonds	42,115	27,751
Private debt	10,828	9,938
Mortgages	145,926	138,769
Canadian equities	183,510	214,390
Non-Canadian equities	78,745	62,218
Real estate	183,746	180,638
Resource properties	(769)	(1,666)
Canadian private equities	(17,151)	(3,795)
Non-Canadian private equities	6,959	3,030
Derivative instruments (1)	94,029	70,411
	1,170,634	1,063,087
Realized gains on disposal of investments	1,354,525	972,255
Unrealized appreciation in fair value of investments	1,228,993	2,102,582
	3,754,152	4,137,924
Less income credited to:		
Administered pension funds	(50,572)	(55,114)
Provision for supplementary retirement benefits	(11,405)	(8,804)
	\$3,692,175	\$ 4,074,006

⁽¹⁾Derivative instruments include realized and unrealized income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

NOTE 9 - BENEFITS

(000's)	1997	1996
Members' pensions	\$ 698,904	\$ 661,454
Members' contributions plus interest refunded	103,489	88,460
Transfers to other pension plans	8,945	5,825
	\$ 811,338	\$ 755,739

NOTE 10 - ADMINISTRATIVE EXPENDITURES

a) Operating Expenses

(000's)	1997	1996
Personnel services	\$ 20,714	\$ 18,517
Transportation and communication	1,568	1,452
Actuarial services	282	430
Audit services	366	262
Legal services	391	541
Other professional services	1,153	568
Occupancy costs and municipal taxes	2,281	1,884
Systems development purchased services	4,371	2,445
Other purchased services	5,034	5,107
Equipment and depreciation	2,858	2,248
Materials and supplies	1,286	1,117
	\$ 40,304	\$ 34,571

NOTE 10 - ADMINISTRATIVE EXPENDITURES (continued)

b) Compensation

The following information is furnished in compliance with the *Public Sector Salary Disclosure Act, 1996*.

Employee	Position Held	1997 Compensation**	Taxable Benefits
B. Bale	Senior Portfolio Manager, Core Fund	\$ 120,968	\$ 334
M. Beswick	Senior Vice President, Pensions	156,986	4,872
D. Biggs*	Vice President, Bonds & Cash Management	158,641	480
J. Buie	Vice President, Corporate Planning & Budget	110,114	381
L. Burgess	Senior Portfolio Manager, Private Placements	107,704	337
R. Churcher*	Vice President, Properties (ORC)	130,047	9,400
L. Clark	Vice President, Economic Policy & Strategic Research	101,403	366
P. Friend	Senior Portfolio Manager, Private Placements	127,357	359
E. Funston	Vice President, Pension Administration	122,444	403
W. Gladstone	Senior Vice President, Finance & Administration	156,986	539
T. Gunn	Senior Vice President, Investments	215,707	704
C. Huang	Portfolio Manager, Money Market & Foreign Exchange	101,325	294
J.M. Knowlton	Senior Vice President, Finance & Treasurer (ORC)	187,959	9,578
T. Lai	Portfolio Manager, Foreign Bonds	112,397	327
M. Latimer	Managing Director (ORC)	130,000	369
D. Leckman	Vice President, Public Market Equities	154,636	495
M. MacDonald	Vice President, Investment Services	107,797	374
J. R. Morrison	Senior Vice President, Properties (ORC)	187,959	9,578
D. Peto	Manager, Equity Trading	108,660	348
G. Platt	Senior Vice President, Human Resources	122,068	431
S. Richardson	Portfolio Manager, Canadian Core Bonds	108,586	334
D. Richmond	President & CEO	214,589	8,231
C.R. Vaillancourt	Vice President, Information Services	134,891	460

* no longer employed by OMERS or OMERS Realty Corporation

** compensation includes salary, performance awards, and other payments excluding taxable benefits

BOARD MEMBERS

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Superintendent of Finance,
Limestone District School Board
Kingston

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Susan O'Gorman

Public Health Nurse,
York Region
Public Health Department

2nd Vice Chair

Michael Fenn

Chief Administrative Officer,
Regional Municipality of
Hamilton-Wentworth

Past Chair

David Griffin

Administrator,
Police Association of Ontario

Nancy Bardecki

Director,
Municipal Finance Branch
Ministry of Municipal Affairs
& Housing

Walter Borthwick

Mayor, Wasaga Beach

David Carrington

Conservation Field Representative,
Toronto Hydro

Joanne Fulkerson

Senior Manager Human Resources,
Thunder Bay Hydro

Claude Guillemette

Reeve, East Ferris Township

Wasim Hassan

Director Utility Practices,
Municipal Electric Association

Peter Leiss

Horticulturalist, City of Toronto

Rick Miller

Fire Fighter,
Windsor Fire Department

Donald Ross

Retiree, Sarnia

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2nd Vice Chair

Michael Fenn

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PENSION COMMITTEE

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Rick Miller

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President & CEO

Michael Beswick

Senior Vice President
Pensions

Wayne Gladstone

Senior Vice President
Finance & Administration

Tom Gunn

Senior Vice President
Investments

Gillian Platt

Senior Vice President
Corporate Affairs

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Watson Wyatt Worldwide

Auditors

KPMG

Legal Advisor

Osler, Hoskin & Harcourt

Master Custodian

State Street Canada Inc.

Medical Advisor

Dr D. Lewis

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Five Year
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PROMISES PROMISES PROMISES PROMISES

OMERS

Keeping the Pension Promise



ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
ANNUAL REPORT 1998

OUR VISION

- OMERS will be an autonomous, self-funded pension plan managed by and for its members and employers.
- OMERS will provide a choice of pension options for employees engaged in the delivery of local government services.
- OMERS will keep its “pension promise” through prudent investment and cost effective management.

OUR CORE VALUES

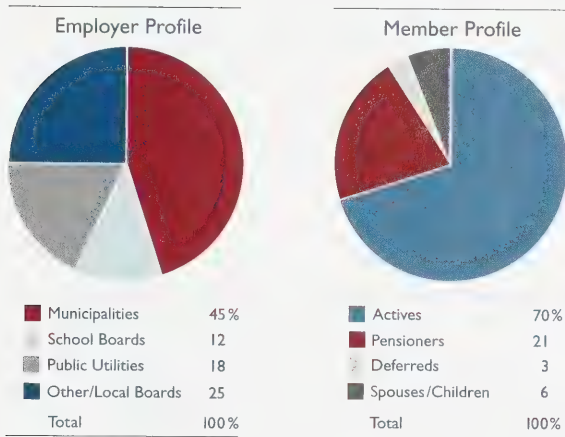
- We provide high quality service to all our clients.
- We treat each other with respect, fairness, trust and dignity.

Profile

The Ontario Municipal Employees Retirement System (OMERS) is a defined benefit pension plan financed by equal contributions from participating employers and employees as well as by investment earnings of the OMERS Fund.

As of December 31, 1998, there were 1,089 participating employers consisting of 493 municipalities, 135 school boards, 192 public utilities, and 269 other local employers, including children's aid societies, library boards and health units. The plan has approximately 270,000 members – including 190,000 active members and 72,000 retirees and their dependents. The plan includes more than 49 union and employee associations.

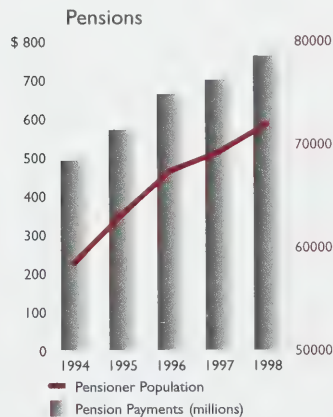
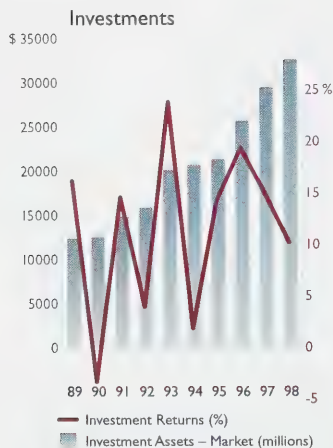
OMERS is governed by a 13-member board. Six represent employers, six represent members (including one pensioner representative) and one represents the Government of Ontario.



1998 HIGHLIGHTS

- Growth in value of accrued pension benefits: \$1.02 billion, up 5%
- Estimated current surplus: \$6.1 billion
- Pensioner payroll: \$761 million, up 9%
- Pensioner population: 72,000, up 4%
- Contributions by employers and plan members: \$372 million*
- Investment returns: 1998 – 10.1%, 4 years – 14.5%, 10 years – 11.2%
- Net assets: \$31.4 billion, up 8%
- Surplus management initiatives:
 - savings of \$2 billion over five years to members and taxpayers
 - improved benefits for members including enhanced early retirement provision until 2002
 - improved benefits for pensioners including ad hoc pension increase to bring all pensions up to 100% inflation protection

(*In 1998, contributions were reduced by about 1/3 until July 31 and then a full contribution holiday was in effect from August.)



A Special 35th Anniversary Message

I congratulate OMERS on its remarkable achievements over the past 35 years.

Its success is proof of what an organization can accomplish when it is allowed to move from under the total control of government.

For its first 11 years, OMERS was restricted to investing in Ontario debentures.

That guaranteed the government access to readily available capital. But it didn't produce the best financial returns for plan members.

In 1974, the Ontario government set OMERS free to make its own investments.

I am pleased to have been associated with that decision. History has shown that it was the right thing to do in reducing pension costs and keeping contribution rates down.

OMERS ranks today as one of Canada's largest and best run pension plans. The nearly 100 individuals who have served on its board of directors over the years, and its successive management teams, are to be commended for continuously operating the plan with a surplus and delivering the pension promise.



W. DARCY McKEOUGH
FORMER TREASURER OF ONTARIO
AND MINISTER OF MUNICIPAL AFFAIRS

Chair's Report

On January 1, 1963 OMERS enrolled its first 8,000 members who worked for about 160 local government employers.

Much has changed in the past 35 years. Membership has escalated. So has the number of participating employers. Fund net assets have grown from \$5 million to \$31.4 billion. Benefits have been improved on a regular basis, including adjustments for inflation.

Today, the basic pension is based on 2% of the member's highest consecutive five-year average earnings per year of credited service, consistent with other public sector plans. At 65, the OMERS pension is integrated with Canada Pension Plan benefits. The average pension for a member retiring in 1998 was \$14,660.

Our track record over the past 35 years is one of "keeping the pension promise".

OMERS has:

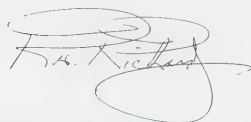
- delivered the pension services that members and employers expect;
- prudently managed investments to keep the plan fully funded;
- improved benefits, but only when the plan could afford them;
- managed the surplus to save plan members and local taxpayers more than \$2 billion over five years through contribution reductions; and
- developed a package of further contribution changes that, if approved by the government, will save members and local taxpayers another \$4.2 billion.

The provincial government has no financial risk in OMERS – and yet still has total control over the plan's provisions and appointment of directors. After 35 years of results, we believe that autonomy for OMERS is very much an idea whose time has arrived. The current government is committed to finding better ways to provide public services in a more flexible, less costly and more responsive manner. An autonomous OMERS fits with this objective.

Allowing the municipal sector to manage its own pension plan will free the province of the responsibility and costs of approving changes to the plan and making Board appointments. The current process is inconvenient, frustrating and slow for both the province and OMERS.

The quest for autonomy will remain a strategic priority for the Board so that local employers and employees can take full charge of their future and the plan that they, and they alone, pay for.

The Board has, and will continue to count on the support and leadership of OMERS senior management to fulfil this mandate.



ROGER RICHARD
CHAIR

"...The ultimate goal should be to hand over full control of OMERS to its membership without provincial involvement. However, this should be done in such a manner as to ensure that employer interests are protected."

DAVID CROMBIE

CHAIR, WHO DOES WHAT PANEL

Memorandum to Minister of Municipal Affairs and Housing, August 14, 1996

President's Report

This is a time of great stress for many plan members as amalgamation, downsizing and restructuring change their employment and the way some things are done by local governments.

During this period of anxiety, OMERS remains committed to the promise it made 35 years ago – to guarantee the retirement income of a wide spectrum of workers in every Ontario community – secretaries, children's aid workers, maintenance staff, nurses, police officers, firefighters, utility inspectors, administrators, gardeners, engineers – the list goes on.

EXCESS SURPLUS

In delivering the pension promise over the past three-and-a-half decades, OMERS has grown into one of the largest pension funds in Canada. In recent years, we have been fortunate to earn high investment returns during a protracted period of low inflation rates and low wage growth. The result is a large surplus of assets over the value of pensions promised to members.

Despite our size and growing investment sophistication, we have not lost sight of the fact that we are an integral part of the communities of Ontario. That is where the plan's money comes from in the form of contributions. That is where it flows back to every year in benefits.

The plan also looks for prudent opportunities to invest in the infrastructure of Ontario. For an institution like OMERS, investment in infrastructure is an opportunity to help the Ontario economy stay strong and competitive. A strong, productive economy improves living standards and will help generate the economic returns the plan needs to fulfil its pension promise.

\$2 BILLION IN LOCAL SAVINGS

Recently, we strengthened the community link by introducing initiatives that will deliver savings of more than \$2 billion to local workers, local employers and local taxpayers over five years by sharing the excess surplus in the plan.

The plan surplus now exceeds the limit of 10% of liabilities allowed by the federal *Income Tax Act*. We have been managing the excess surplus to comply with this legislation. The equivalent of five percent of liabilities is set aside in a stabilization reserve as a cushion against short-term surprises from investment markets. The remaining funds are being reduced through a one-year contribution holiday, reductions in contribution rates after that, inflation protection for all current pensions, better benefits for surviving spouses, and improved early retirement benefits.

These actions could not have come at a better time. We put two billion dollars into the pockets of 190,000 working people throughout the province to help strengthen community economic growth. We have supported thousands of early retirements to create job opportunities for young people. And we took about 300 million dollars in restructuring cost pressures off municipal governments, school boards and other local bodies to the ultimate benefit of millions of Ontario taxpayers.

As the municipal world continues to change, the Board will continue to seek other ways to respond to the needs of our constituents beyond minimizing contribution rates and enhancing benefits.

For example, members have long had the right to transfer their benefits to another plan when they change jobs within the public sector. Recently we changed the transfer options for plan members to include the transfer of their pensions to some non-public sector plans as well, and vice versa. Private sector employers who take over staff and services from local governments can now join OMERS. Individual choice and portability of pensions are enhanced.

OUTLOOK

Our commitment to making life better financially for employers, plan members, pensioners and local taxpayers does not end with the current surplus management initiatives. While we have kept the promises of the past, we will have new promises to make for the future. OMERS will likely continue to have surplus funds above the safety cushion. Consequently, we will continue to develop new proposals to benefit our members and Ontario taxpayers.

Finally, I would like to thank the Board for its vision and leadership and our employees for their dedication and hard work. OMERS could not have achieved such consistently high results without their many contributions.



DALE E. RICHMOND

PRESIDENT AND CEO

Mandate & Governance

The purpose of the Ontario Municipal Employees Retirement System is to guarantee the retirement income of approximately 270,000 active members and pensioners. The plan is funded by equal contributions from employers and employees, and also by investment income from the OMERS Fund. The plan receives no money from the Ontario government.

The OMERS mandate is set out in the *OMERS Act and Regulation*. Changes to the plan are made by the province at the request of OMERS. The plan must also conform to Ontario's *Pension Benefits Act* and *Municipal Act* and the federal *Income Tax Act*.

A distinguishing feature of OMERS is its diversity. Contributing employers include large cities and regional governments as well as small towns and villages, along with school boards, libraries, hydro utilities, health care centres and children's aid societies. The employees range from manual workers and part-time clerical staff to professionals, executives and elected officials. They are represented by more than 49 unions and employee associations.

BOARD MEMBERSHIP

Governance is vested in a 13-member board, composed of six employee representatives (including one pensioner) and six employer representatives. The 13th member is a provincial government official. Board members are appointed by Order in Council of the Lieutenant Governor of Ontario.

Each Board member serves for a maximum of two three-year terms. About one-third of the Board changes every two years, ensuring a continuous combination of experienced directors and fresh participants. Board executive positions (chair, two vice chairs and the immediate past chair) are for one-year terms.

The representative character of the OMERS Board has been highly effective over the past 35 years in keeping the pension promise and overseeing the prudent management of plan assets.

The Board members have a good balance of work experience, skills and perspectives that reflect the plan's diversity. During 1998, the Board consisted of a mayor, a reeve, a municipal chief administrative officer, a school board financial executive, a public health nurse, a horticulturist, a police association administrator, a senior human resources manager, a firefighter, a conservationist, a utilities official, a pensioner, and a provincial director of municipal finance.

The Beginning...

**First members
enrolled
January 1**

ORIENTATION AND ONGOING EDUCATION OF REPRESENTATIVE BOARD

Each new Board member receives an orientation and all Board meetings include an educational component on an aspect of plan administration, investment, fund valuation, or other matters. The continuing education series includes the Board's responsibilities and fiduciary duty in overseeing the prudent management of the plan in the best interests of beneficiaries. Each Board member has a budget to attend conferences and seminars that provide independent education and the opportunity to meet and exchange ideas with peers. As a result, the Board has access to a large and established knowledge base.

ALIGNMENT OF INTERESTS

Twelve of the 13 current members of the Board are plan members and it is a constant reminder that policies and decisions must always be in the best interests of all stakeholders. Alignment of interests are especially important during times of change in local governments and school boards, involving downsizing, restructuring and amalgamation.

The Board's governance is focused on stabilizing contribution rates, maximizing investment returns while avoiding undue risks, and proactively managing the surplus of assets over liabilities. The Board requests provincial approval of enhanced benefits only when changes can be afforded.

ACCESS TO EXPERTISE

The Board has access to outside experts in plan administration and fund investment as well as staff professionals in these and other fields. The Board also requires full and open explanations from all parties.

The oversight and questioning provided by the Board, which is regularly energized by the appointment of new members, has kept accountability to plan members at the centre of the governance process.

DIVISION OF POWER AND RESPONSIBILITIES

Day-to-day management of OMERS is delegated to the chief executive officer. The Board appoints the CEO, who is not a member of the Board, and reviews his performance annually.

The CEO selects the management team, which consists of four senior vice presidents responsible for pension services, investments, finance & administration, and corporate affairs. The role of management is to implement the pension, investment and organizational policies approved by the Board.

The Board retains responsibility for OMERS strategic direction, organizational effectiveness, allocation of financial resources, plan design (subject to provincial approval), the modification of contribution rates, the actuarial valuation on the financial condition of the plan, investment asset allocation, and executive compensation.

Plan Expansion and Improved Governance...

Board governance adopted – eleven member board appointed

BOARD MEETINGS AND ATTENDANCE

The Board meets 12 times a year, including two strategic planning sessions. There was virtually 100 percent attendance at all meetings in 1998.

BOARD COMMITTEES

The Board has four standing committees. The executive committee consists of the chair, first and second vice chairs, and immediate past chair. The other three standing committees – investment, pension and management – consist of all Board members. The executive and investment committees meet eight times per year; the pension and management committees meet four times per year.

The Board also has two sub-committees. The audit sub-committee consists of the chair and vice chair of the management committee and the chairs of the pension and investment committees. The OMERS chair is also an ex-officio member. The audit sub-committee meets four times per year. The governance sub-committee consists of the immediate past chair, the chair, first vice chair, and vice chairs of the investment, pension and management committees.

The *executive committee* handles Board affairs, provincial government relations, and organizational changes. The *executive committee* also acts as the compensation sub-committee and handles executive compensation and reviews the performance objectives for the president.

The *investment committee* approves the long-term asset mix every four years, annually reviews investment policy and goals, and regularly reviews corporate governance policies and major investment decisions.

The *management committee* has policy responsibility for human resources, the annual budget, the strategic plan, and the purchase of goods, services and equipment and technology systems.

The *pension committee* oversees pension administration policies and plan financing associated with pension liabilities, appoints the independent actuary and reviews actuarial valuations, the stability of contribution rates and the cost of new plan benefits.

The *governance sub-committee* reviews the mandate of the Board and its committees and evaluates the effectiveness of the Board on an annual basis. The sub-committee also reviews the Board orientation and education programs, the composition, qualifications, compensation and nomination process for Board members and will review other issues of OMERS governance that arise from time to time.

The *audit sub-committee* oversees the plan's financial affairs and reporting, reviews the annual financial statements, and recommends the appointment of the external auditor.

**Better Benefits
for Pensioners...**

**First ad hoc pension
increase (10%)**

**Dependent child
benefits introduced**

EFFECTIVE GOVERNANCE

The effectiveness of the OMERS governance model is evident in 35 years of promises made and promises kept.

The plan has consistently kept the pension promise.

Over the years, the plan has improved benefits in step with their affordability and today the OMERS plan is competitive with the other major public sector pension plans. Currently, members are enjoying a contribution holiday.

The plan has consistently had a surplus of assets over liabilities.

The plan has been virtually fully funded over its 35 year history.

The plan has consistently achieved long-term financial stability.

A prudent investment policy is followed with the emphasis on moderate risk and reliable returns over the long term to deliver fully funded benefits to members. The bottom line benchmark is to exceed the level of inflation by 4.25 percent over the long term so that there is enough money to pay the pensions promised.

The plan has consistently achieved its client service objectives.

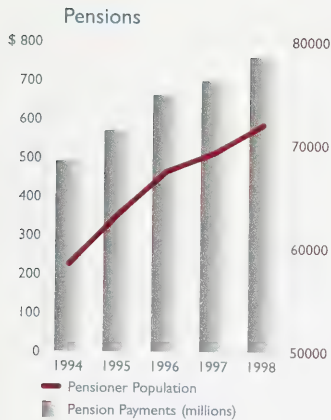
Paying pensions is job one. OMERS continues to be dedicated to providing high quality client service, ensuring that benefits are processed on a timely basis and that every pensioner receives his or her pension cheque, on time, every month.

The plan has achieved strong investment returns.

Investment performance in equity, fixed-income and real estate asset classes has equaled or exceeded the average performance of Canada's 20 largest pension plans from 1991 to 1998. Differences in total fund returns among plans primarily reflect differences in asset mix, such as one fund investing more aggressively in the stock market than another. OMERS has consistently met its long-term performance goals.

The plan has achieved results at low cost.

Annual operating costs of 24 basis points are low relative to the plan's \$31.4 billion in net assets. Since 1992 OMERS has been a leading participant in both investment and pension administration benchmarking surveys. These surveys consistently show OMERS to be cost effective.



Pension Services

More than one-third of OMERS staff are involved in the delivery of pension services to active members through their employers and directly to retired members and their survivors.

In response to widespread change in the local government sector and the changing needs of our clients, we are expanding services, improving benefits, modernizing pension management systems and increasing communications with employers and members.

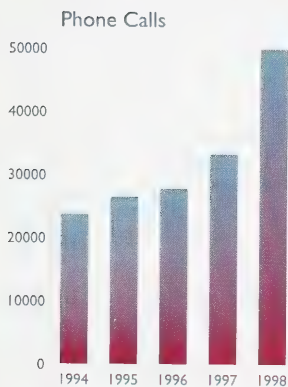
EXPANDED PENSION ORGANIZATION

For the first time in seven years, we recently expanded our Pension Division, adding 23 new positions to bring staff to 112 employees. This change was necessary to support improvements in our client services. The Pension Division is committed to achieving excellence in customer service. The division frequently surveys its members to ensure programs are continually changing to meet their needs.

Among other trends, changes in local employment conditions and the introduction of early retirement incentives, are placing greater demands on our services. In 1998, we received 10,325 requests for pension quotes (a 23% one-year increase) and 2,370 requests for termination quotes (a 78% increase). Growth in the number of retirees is expected to increase over the next few years as older employees take advantage of the early retirement incentives currently in place until December 31, 2002.

We place great emphasis on communications, especially about plan changes. Our communications efforts are driven by our clients' needs. We respond to personal requests for information as well as provide timely information on plan changes. Clients are provided with a wide variety of choices in how to access information, including the use of new technology.

Ongoing communications with members and pensioners include newsletters, booklets, annual benefit statements, the annual report highlights, the Web site www.omers.com, a 1-800 information service and information meetings around the province. For employers, we also produce newsletters, hold province-wide information meetings, conduct training seminars and provide a pension administration manual.



PENSIONER SERVICES

A large part of our work is providing the retirement income of former local government employees. In 1998, the plan paid out \$761 million in pension benefits, a 9% increase over the previous year. At the same time, the pensioner population grew by 4% to 72,000 people, including members receiving disability pensions, surviving spouses and dependent children.

New retirements were 3,706 in 1998, compared with 2,778 a year earlier. Of the new retirements, 2,646 were early retirements.

PLAN MEMBER PROFILE

The retirement age for most plan members is 65. Normally they contribute 6% of salary up to the Year's Maximum Pensionable Earnings (YMPE), which is \$56,900 for 1998, and 7.5% beyond that.

Approximately 13% of active plan members, mostly police officers and firefighters, are

eligible to retire at 60. Normally they contribute 7% of salary up to the YMPE and 8.5% beyond that.

All members receive a pension based on 2% of their best five consecutive years of earnings multiplied by their years of credited service to a maximum of 35 years. Members with 35 years of credited service no longer contribute. At age 65, the pension is adjusted to integrate with the Canada Pension Plan (at pension commencement for spousal pensions and disability benefits if the member is not yet 65).

The pensions of individual members vary greatly, consistent with the inherent diversity of the OMERS plan. Salaries, for example, range from less than \$10,000 a year for part-time employees, to \$35,000 to \$40,000 for many members, with a small number of senior municipal executives earning \$120,000 to \$160,000. The average salary is about \$37,000 and the average pension of a member retiring in 1998 was about \$14,660.

MODERNIZING PLAN ADMINISTRATION

We are completing a four-year program of modernizing plan administration. Computer systems are being consolidated and upgraded to better manage the collection and verification of member information and to maintain the accurate calculation and distribution of benefits.

By the end of 1999 we expect to complete our Membership Services System (MSS) that will give us the speed, flexibility and functionality needed to improve the quality of pension services. It will also enable us to adapt more easily to the changing needs of employers and members as well as future changes in the plan.

SHARING THE PLAN'S SURPLUS

OMERS has two initiatives underway to manage the plan surplus that directly benefit active members, pensioners and employers – a five-year surplus management initiative and a one-year contribution holiday. The initiatives consist of:

- *A one-year contribution holiday for employees and employers.*

Announced in June 1998, the one-year contribution holiday will last until July 31, 1999 and save local governments and their employees about \$900 million. In one year, this initiative will leave over \$2,200 of additional gross salary with the average member. Local governments, school boards, utilities and other bodies will save a dollar for every dollar saved by their employees.

During the contribution holiday, members continue to earn credited service as if they were making contributions. Consequently, their pensions are not affected.

- *Following the current contribution holiday, employer and employee contributions will be cut by about one-third.*

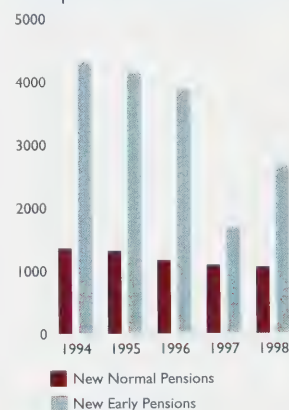
Contribution rates will be cut by two percentage points from August 1, 1999 until December 31, 2002, returning to normal levels on January 1, 2003.

- *Retired members, including members with deferred pensions and on disability waiver, receive fully indexed pensions.*

Over the years, protection against inflation has increased in step with the plan's ability to afford improved benefits. OMERS has regularly "topped up" pensions against



Annual Number of New Pensions Set-up Over a Five Year Period



inflation and in 1992 guaranteed 70% of the Consumer Price Index for all members on an ongoing basis. In 1998, all existing pensions were increased to 100% of the CPI since they began. In addition, based on the plan's annual financial position, pensions have regularly been increased for inflation on an ad hoc basis. For many years, these increases have matched the rise in the CPI.

➤ *The pensions of surviving spouses have been enriched.*

Since 1971, we have improved pensions for surviving spouses. In 1988, they were increased from 50% to 60% of the member's pension. In 1998, surviving spouse pensions were increased to 66.67%, the maximum allowed by the federal *Income Tax Act*. This change benefited about 14,000 existing surviving spouses and will benefit all future ones. Spouses with dependent children are currently entitled to a pension supplement from 66.67% to 75% of the member's pension.

➤ *The early retirement provisions were enhanced.*

Members normally eligible to retire at age 65 with a 90 factor can take early retirement before December 31, 2002 based on an 85 factor (age plus years of credited and eligible service add up to 85) on or after age 55. Members normally eligible to retire at 60 can retire on an 80 factor instead of an 85 factor on or after age 50. Other members can take a 2.5% early retirement reduction, instead of the normal 5%. These provisions will help to save jobs and facilitate local restructuring.

In addition to these initiatives already underway, OMERS has submitted an additional package of benefit changes to the Ontario government for approval. These proposals were developed after consultation with employer, employee and pensioner representatives and include both temporary and permanent plan changes. These proposals include:

1. OMERS proposes to extend the contribution holiday until the end of 2001, subject to an annual review of the sufficiency of the plan surplus. Normal contribution levels will then be phased in to begin on January 1, 2004.
2. OMERS proposes to guarantee 100% inflation protection for all current and future pensions. If the Board receives government approval, annual ad hoc adjustments will no longer be necessary.
3. OMERS proposes to provide up to 100% survivor benefits – a 66 2/3% spousal benefit plus 10% per dependent child up to a maximum of 100%.
4. OMERS proposes to improve the early retirement incentive for three years (January 1, 1999 until December 31, 2001) to an 80 factor for those normally eligible to retire at 65 and a 75 factor for those normally eligible to retire at 60. In addition, members would be able to retire up to 15 years before their normal retirement date, rather than 10 years as at present.
5. OMERS proposes to adjust the way we calculate the offset for the CPP in the pension formula. The CPP has introduced new pension calculations that effectively reduced benefits to our members. We would revise the CPP offset formula from 0.7% per year of credited service at age 65 to 0.675%, and move to a five-year average of the Year's Maximum Pensionable Earnings which means that OMERS will pay more lifetime retirement benefits.

A Step Toward Autonomy and Better Returns for Fund...

**Moved from
government bonds
to investing in
marketable
securities**

Investment Services

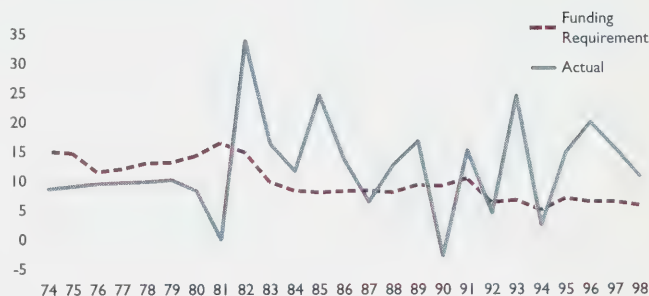
The financial focus of OMERS is to maintain stable contribution rates and to ensure that the pension plan has sufficient assets over the long term to pay the pensions promised to members. To do that, we select investments that are likely to grow in value at least as fast as benefits.

INVESTMENT OBJECTIVE

The plan needs to earn on average 4.25% per year above the rate of inflation to meet the long-term cost of benefits. Although inflation in Canada has been less than 2% in recent years, over the long term it is projected at up to 4% annually. As a result, the nominal long-term investment target for the next several years is 8.25%.

The long-term investment objective assumes the plan will continue to maintain a surplus and provide long-term inflation protection.

Investment Returns



INVESTMENT PHILOSOPHY

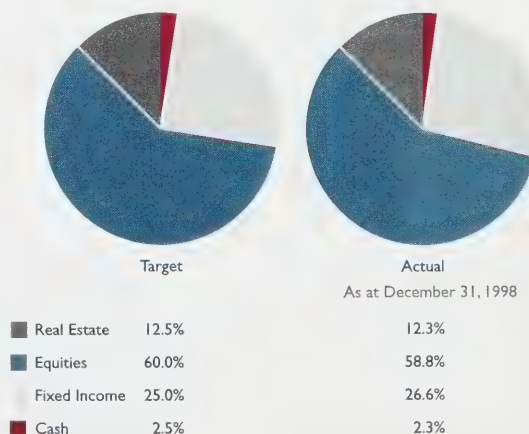
Because of the plan's financial strength, we follow a prudent investment policy that emphasizes reliability and stability of returns. If the plan had more liabilities than assets, it would have to earn higher returns over the long term while tolerating greater volatility in the short term in order to close the gap. In addition, the Board would have to consider raising contribution rates. Success in managing a surplus of assets over liabilities lowers the investment risk to achieve the long-term target of 4.25% plus the inflation rate. We develop investment programs that have a high probability of producing realistic returns equal to or exceeding the long-term investment target.

ASSET MIX

The single most important investment policy decision for any pension fund is determining the asset mix. This means choosing various types of investments to reflect the plan's particular composition of liabilities. A comprehensive review of the asset mix policy is undertaken every four years. The last major review was completed in 1997.

The need is for an asset mix that provides sufficient liquidity to meet the pension payroll of a rapidly growing population of retired members and to provide future benefits for members who are at an earlier stage in their careers. As a result of the contribution holiday and subsequent rate reductions, the fund is experiencing a short-term reduction in cash flow. For example, the one-year contribution holiday that ends in July 1999 will alone reduce annualized income by \$900 million or almost the same amount as benefit costs in 1998.

Asset Mix



Derivative backing assets have been allocated to their appropriate asset classes.

The asset mix directly influences fund returns. OMERS has three broad asset classes – equities (or stocks), bonds and real estate. A heavier weighting toward stocks, for example, is likely to produce higher returns over the long term because stocks have historically outperformed bonds and real estate and are expected to do so in the future. However, the risk of negative returns in any given year is greater.

In recent years, including 1998, major stock and bond markets elsewhere in the world have outperformed Canadian markets. Approximately 16.1% of the plan's assets at cost were invested outside Canada in 1998, which helped to offset poor market performance at home.

Within the asset classes of equities, bonds and real estate are numerous portfolios with different characteristics. A portfolio is a similar group of investments that produces returns different from other portfolios. To the extent that different asset classes and portfolios move on different growth cycles, the overall volatility of returns is moderated. Prudent investing requires diversification of risk over several asset classes and portfolios. Within each portfolio, investing in different industries and different geographic markets further diversifies risk.

The plan had \$31.4 billion in net assets at the end of 1998, an 8% increase over the previous year.

EQUITIES

Equity investments have more risk than bonds or real estate, but offer higher long-term returns. By investing in established corporations, we receive dividend income on a regular basis plus capital gains as share prices increase over time. By investing in

growing companies, including private firms, more rapid gains in capital appreciation can be achieved, though at higher risk.

Our equity investing recognizes that when we buy stocks, we buy an ownership position in companies. At the end of 1998, we owned on average almost 2% of the market capitalization of the companies listed in the TSE 300 index.

Some institutional investors, such as mutual funds, are focused on quarterly and annual investment returns and trade actively to maximize returns. We

invest over several market cycles and principally buy corporate shares to hold rather than trade. Because of the size of individual equity holdings, it is difficult to sell our position in a company without driving the share price down and reducing our own returns. Consequently, our corporate governance practices (discussed on page 18) are important in focusing corporate managers on creating long-term shareholder value.

OMERS Rates of Return vs. Benchmarks

	1998		4-Year		10-Year	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Fixed Income						
Canadian	9.92	9.11	13.37	12.79	11.79	11.53
Foreign	23.58	24.18	12.97	12.36	–	–
Equities	8.76	9.20	16.51	16.64	11.72	11.34
Canadian	-0.98	-1.58	15.51	13.57	10.39	9.65
Internal Active	-0.80	-1.58	16.18	13.57	11.22	9.65
External Active	-2.39	-1.58	13.77	13.57	–	–
Internal Indexed	-0.98	-1.58	13.98	13.57	–	–
Foreign	24.85	25.49	17.27	20.71	15.18	13.98
External Active	18.50	16.47	10.80	10.31	–	–
Internal Indexed	38.05	37.70	33.46	33.35	–	–
Real Estate	15.14	11.18	9.86	10.41	6.00	5.03
Total Fund	10.10	5.27*	14.55	5.66*	11.19	6.60*

*Funding Requirement is 4.25 plus the rate of inflation

We follow three strategies for equity investing, with the emphasis on active rather than passive management.

Actively managed stocks: At the end of 1998, approximately two-thirds of our Canadian stock holdings were actively managed portfolios, with the remainder in index funds and merchant banking.

In Canada, we have built an \$8.5 billion actively managed stock portfolio by researching and selecting companies that we believe offer the best prospects of reliable growth over the long term. This portfolio is partially managed by OMERS investment staff and partially by external managers with expertise in particular market sectors.

Despite volatile markets in the second half of 1998, our actively managed Canadian stock portfolio outperformed its benchmark, the TSE 300 index, by 65 basis points. On a four-year basis, the portfolio returned 15.7% compared with 13.6% for the TSE 300 index.

Outside Canada, we have a \$3.6 billion portfolio that is actively managed by several external managers. We believe in investing in different global economies. Quality companies are selected in growth industries primarily in Europe, with smaller holdings in the Far East and Latin America.

The emphasis on global diversification paid off in 1998, with our foreign stocks returning 24.8% overall, compared with a negative 1.6% for the TSE 300 index. In 1998, we created a new performance benchmark for our foreign equities to reflect changes in world market conditions brought about by the collapse of Asian market prices.

Indexed stock funds: A traditional investment method for institutional investors is to buy shares in companies listed in a market index. Index funds are expected to match the performance of their respective index less transaction costs.

In Canada, we invest in the shares of the companies that make up the TSE 300 index on the Toronto Stock Exchange, such as major banks, technology companies, consumer goods producers and retailers, and resource companies. In 1998, we had \$1.2 billion invested in TSE 300 companies and earned returns slightly higher than the index without assuming additional risk.

Outside Canada, we invested in two U.S. index funds. One matches the widely held stocks that make up the Standard and Poor's 500 index and the other mirrored the S&P 400 mid-cap value fund which was sold in November 1998. The S&P 500 index fund added 24 basis points of value.

Merchant banking: Merchant banking involves financial and strategic support for private companies with clear growth plans and the prospect of a public offering of shares. We provide these firms, located in Canada, Europe and Asia, with both debt and equity capital. Merchant banking investments totaled \$508 million in equity and \$175 million in debt.

The private equity portfolio returned 9.4% compared with minus 1.6% for the TSE 300 index. On the debt side, the merchant banking group added 60 basis points of value over the benchmark for new deals initiated in 1998.

Fairer Pension Formula...

Significant increase in benefits (from career average to best five-year average)

Across all portfolios we are prepared to take more than a 10% ownership position where appropriate in companies. We ended 1998 as an insider in 10 listed companies.

Merchant banking investments comprise less than 2% of total assets. We intend to play a more active role in assisting private companies, particularly Canadian firms, to fulfil their growth potential. We added new staff during 1998 to ensure we have the capacity to pursue new opportunities. Our long-range target is to invest 5% of assets in merchant banking opportunities.

FIXED-INCOME INVESTMENTS

The debt securities of governments and corporations, such as bonds and mortgages, carry less risk and volatility than stocks and provide steady income with a return of capital when they mature. However, they generally have lower returns than stocks.

Fixed-income securities have a wide range of maturity dates, enabling us to schedule investments over different market cycles. We also trade bonds to take advantage of market conditions. For example, when interest rates are expected to decline, bond prices rise, offering the opportunity to take profits. Conversely, when interest rates are expected to rise, bond prices fall, offering the opportunity to buy securities at a discount.

In 1998, the fund had \$12.9 billion invested in debt securities, with 44% in Canadian federal and provincial bonds.

The Canadian Fixed Income portfolio earned returns of 9.9% in 1998, exceeding its benchmark by 0.8%.

A significant part of the fixed-income portfolio (\$4.3 billion in 1998 or 33%) is cash and short-term investments, primarily to back our derivatives program and to meet the plan's daily cash flow requirements.

REAL ESTATE

Income-producing real estate properties have historically produced long-term returns close to equities and better than bonds, with lower volatility. Real estate is considered a good hedge against inflation (which is expected to recur over the long term) and produces regular cash flow from the rental income stream with the prospect of good

Real Estate Property Portfolio

	Number of Properties	Net Leasable Area	Occupancy Level (%)
OFFICE	19	7,693,670	95.1
RETAIL	18	9,926,102	97.3
Total	37	17,619,772	96.4

capital appreciation when the property is sold.

We invest primarily in income-producing properties, and also take equity positions in companies that

develop and manage real estate. With 37 properties worth approximately four billion dollars, our real estate portfolio is one of the largest in Canada.

Following a fundamental review of our real estate operations in 1997, we adopted a new strategy in 1998 that includes ownership in real estate companies. The first significant investment was in Oxford Properties Group Inc., of which we owned 15% by year end.

Late in 1998, we acquired Hammerson Canada. This acquisition gave us full ownership of five shopping centres in Ontario, including Square One in Mississauga. We also gained ownership of four office buildings located at the King/Yonge and Bloor/Yonge commercial nodes along Toronto's Yonge Street subway system, as well as the gateway to the system at Yonge and Finch.

As a result of these transactions, real estate is close to the mid-point of our weighting for this asset class (12.5%). Real estate offers excellent long-term growth opportunities and provides stability in our asset mix to offset the volatility of public capital markets. For example, in 1998, the portfolio earned a 15.1% return, substantially better than Canadian equity returns.

DERIVATIVES

Incorporated in the equity and fixed-income asset classes are derivative contracts. Derivatives are financial agreements between OMERS and counterparties, such as banks, insurance companies and investment dealers. These contracts take their value from an underlying asset, such as a group of stocks or bonds, or from underlying interest rates and currency exchange rates.

OMERS was one of the first Canadian pension funds to use derivatives to rebalance and refine the asset mix within the approved ranges. This facilitates a better matching of assets and liabilities, and makes it possible to more efficiently manage risk among different types of assets and different countries. For example, through derivative contracts we reallocate lower yielding short-term money market investments into higher yielding bonds or equities.

As discussed in Note 6 to the financial statements, we mostly use derivative agreements to securitize cash and to manage foreign exchange rate fluctuations through forward contracts and the financial risk between stocks and bonds through swaps and futures.

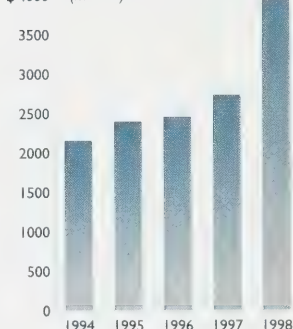
The notional value of derivative contracts in 1998 was \$4 billion, compared with \$3 billion a year earlier. Our net credit exposure, i.e. our risk exposure, to derivatives at the 1998 year-end was \$105 million, or 0.5% of the fund.

CORPORATE GOVERNANCE

We own shares in some 1,200 companies with significant holdings in about 800 firms. It is important to us that the management of companies in which we invest focus their efforts on creating long-term shareholder value. Companies with good corporate governance tend to generate better returns. Better returns to the OMERS plan lower the costs of paying pensions.

Good corporate governance practices include setting out the responsibilities and expected performance of management and its accountability to the shareholders. We assist companies in maintaining this focus in the way we vote the shares we own. We issued a revised version of our *Proxy Voting Guidelines* in 1998 so that the management of

Growth in Real Estate Assets
\$ 4000 (millions)



**Increased early
retirement
benefits...
Introduction of
90 factor**

1991

Continuing Benefit Improvements... Thirty Year early retirement provision

Fund Flow (millions)		1998
Funds received from:		
Contributions	372	
Net Investment Income	2,867	
Total Increase	3,239	
Funds used to:		
Pay Benefits	920	
Administration	47	
Total Decrease	967	
Change in Net Assets	2,272	

companies in which we invest, as well as other shareholders, understand how we will vote on specific issues that affect shareholder value. Our proxy voting guidelines are available in a 38-page booklet.

OMERS believes that public companies should provide much greater disclosure than is currently required by Canadian and U.S. regulators so that individual investors have access to information as readily as institutional investors.

In 1998, we voted on 2,404 management resolutions in 506 Canadian and 936 U.S. companies. We voted against management on 38.5% of proxies, principally in opposition to the granting of share options with the potential to excessively dilute shareholder value. We also opposed "poison pill" provisions that could entrench management and limit shareholder value in the event of a takeover bid. Approximately 962 proxies were voted in non-North American companies on our behalf by outside managers.

Financial Performance

CHANGE IN NET ASSETS

During the year, \$5.2 billion of contributions and net investment income was added, compared with \$4.6 billion in 1997. The change in net assets consisted of:

- \$372 million in contributions, compared with \$890 million in 1997. Employers and members made reduced contributions for seven months in 1998, and no contributions for five months, versus full contributions for the entire year in 1997.
- \$2.9 billion in net investment income, compared with \$5.7 billion a year earlier. Despite lower interest rates in 1998, investment income increased to \$1.6 billion from \$1.2 billion in 1997. After adjusting for capital gains and unrealized appreciation, net investment income declined by 22%.

Net assets were decreased by the \$920 million in actual pension and benefit payments, compared with \$812 million in 1997, and \$47 million in administrative expenditures, compared with \$40 million a year earlier.

The result was that the plan ended 1998 with \$31.4 billion available for benefits, a gain of \$2.3 billion during the year.

INVESTMENT RETURNS

A pension fund's investment returns are determined by its asset mix policy and the behavior of the markets in which those assets are invested. The returns of one pension fund compared with another primarily reflect different asset mix decisions. These decisions are based on the size and maturity of each plan's liabilities as well as the level of payroll contributions by plan members and employers. The asset mix policy influences decisions about the most appropriate markets in which assets should be acquired.

Because the matching of assets with long-term liabilities is the driving force behind a pension plan's investment policy, performance is very much a long-term perspective. A pension fund need not be overly concerned about short-term fluctuations in market values because it is not investing for the short term.

OMERS was empowered to pursue an active investment policy in 1974 and has gradually developed the asset mix that exists today. Since 1974, the fund has achieved a compounded annual rate of return of 11.2%. This compares with the long-term investment objective of 8.25% that the plan needs to earn consistently to maintain a fully funded position.

Returns are also measured in the short term to monitor performance in volatile markets. If short-term returns deviate unusually from market results, we can refine the asset mix to better balance fluctuations over the long term.

In 1998, our rate of return for four years (a standard in the pension fund industry) was 14.5% and for one year 10.1%. These results compare favourably with the total long-term funding requirement (4.25% + inflation).

GROWTH IN LIABILITIES

Based on the 1997 actuarial valuation, the actuarial present value of accrued pension liabilities totalled \$22.1 billion at the end of 1998, a 5% increase over the previous year.

The plan's financial obligations to active members, pensioners and former members have grown significantly in recent years. This trend will continue. Although membership and wage growth have been flat recently, members have been retiring earlier than expected, taking advantage of the plan's early retirement enhancements.

The actual pension and benefit costs for 1998 were \$920 million, a 13% increase over the prior year.

THE PLAN'S FUNDED POSITION

Providing pensions to current members is a long-term commitment extending over 70 years or more. The cost is estimated on a regular basis to ensure the plan has enough money to pay for the total pension promise.

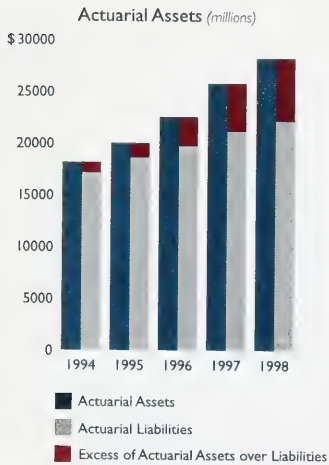
OMERS retains an independent actuary to estimate the value of assets and liabilities, as well as the cost of accruing benefits, based on various economic and demographic assumptions. These estimates are prepared every year and the actuary typically prepares 20-year forecasts on the plan's financial situation. These forecasts assist OMERS in making decisions about the future financial position of the plan and the use of surplus funds.

THREE KEY ASSUMPTIONS

By their nature, pension plans must be conservative about the future so that they can deliver the pension promise with confidence. That means being cautious about how much the plan might earn and assuming pension costs might be higher than expected.

**Board Expanded
to Handle
Growing
Responsibilities...**

**Members now total
13, including pensioner
representative**



The actuary makes conservative long-term assumptions about three key factors – investment returns, which affect the value of assets, and inflation and salary increases, which affect the value of future benefits.

In preparing the 20-year forecasts, the actuary works with management to develop realistic short-term scenarios that differ from the long-term estimates. For example, inflation and wage increases have been lower than expected. Realistic assumptions for the next few years are factored in the 20-year forecasts to develop the best possible estimate of the plan's future financial position.

VALUING THE ASSETS

Stability of funding is a primary objective. The market, however, determines the value of assets. These values can be highly volatile, with a single year's results being unusually high or unusually low. To provide a more stable asset base, the actuary averages the market value of assets for the current year plus the four preceding years to produce an adjusted market value. This smoothing of asset values, as the accompanying chart shows, provides a more objective picture of the long-term relationship of assets to liabilities.

VALUING THE LIABILITIES

Stable assumptions are used to value liabilities. The actuary examines the plan's demographics – the age, length of service, salary ranges, full-time versus part-time employment, and other factors of the diversified membership. Information is processed on active members, former members who should have entitlements in the plan, and pensioners, surviving spouses and children who receive benefits. Mortality, disability and termination of employment data are factored in.

This member data is collected once a year by OMERS from 1,100 employers and is collated and validated before it is used for valuation purposes.

CALCULATING THE SURPLUS

The present value of accrued liabilities is deducted from the actuarial value of assets to calculate the actuarial surplus. From this, 5% of liabilities is set aside in a funding stabilization reserve as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations, such as accelerated early retirements.

(\$ billions)	1998	1997
Fair market value of net assets	31.4	29.1
Smoothing reserve	(3.2)	(3.3)
Actuarial net assets	28.2	25.8
Present value of future liabilities	22.1	21.1
Actuarial Surplus	6.1	4.7

Year 2000 Compliance

In 1998, OMERS undertook an extensive program to minimize the business and technology risks associated with date-related information for the Year 2000. A project coordinator was appointed to manage the program and a qualified consultant retained to define tasks and timelines. A steering committee of senior managers reviews the status of the preparedness program every two weeks and reports to the Board monthly.

Our approach involves six steps – inventory, readiness assessment, strategy and planning, systems modification, testing, and implementation.

By the end of 1998, we had completed a comprehensive inventory and assessment of systems, applications, infrastructures and interfaces. The most critical components were confirmed as being compliant or were made compliant through upgrades and replacements. We had also reviewed the Year 2000 readiness of key investee companies, investment managers and suppliers.

During the first half of 1999, OMERS will complete testing and modifications to its systems, including the new membership services system being introduced. In the second half of 1999, we will assess the compliance of suppliers, investee companies, properties owned by OMERS, and major interfaces.

It is not possible to ensure that all OMERS systems and processes are immune to Year 2000 problems. Consequently, a contingency program was developed in the first quarter of 1999 in the event that systems considered compliant turn out to be non-compliant or issues are encountered with third-party systems.

In total, OMERS expects to have invested more than \$25 million in new or upgraded systems as a direct or indirect result of the need for Year 2000 compliance.

***Further Improvement
as Benefits Adjusted to
Keep Pace with Cost
of Living...***

***All pensions brought up to
100% of CPI***

***Reduced contributions, then
contribution holiday***

Board Members

Roger Richard

CHAIR
Superintendent of Finance
Limestone District School Board
Kingston

Susan O'Gorman

FIRST VICE CHAIR
Public Health Nurse
York Region

Peter Leiss

SECOND VICE CHAIR
Horticulturist
City of Toronto

David A. Griffin

IMMEDIATE PAST CHAIR
Administrator
Police Association of Ontario

Nancy Bardecki

BOARD MEMBER
Director, Municipal Finance Branch
Ministry of Municipal Affairs and Housing

Walter Borthwick

BOARD MEMBER
Mayor
Town of Wasaga Beach

David Carrington

BOARD MEMBER
Conservation Field Representative
Toronto Hydro

Joanne Fulkerson

BOARD MEMBER
Senior Manager, Human Resources
Thunder Bay Hydro

Claude Guillemette

BOARD MEMBER
Reeve
East Ferris Township

Wasim Hassan

BOARD MEMBER
Director, Utility Practices
Municipal Electric Association

Rick Miller

BOARD MEMBER
Firefighter
City of Windsor

Don Ross

BOARD MEMBER
Retiree

James V. Sherlock (until May 1998)

BOARD MEMBER
School Trustee
Halton Separate School Board

W. Michael Fenn (until August 1998)

SECOND VICE CHAIR
Chief Administrative Officer
Regional Municipality of Hamilton-Wentworth

Senior Officers

Dale Richmond

President & CEO

Michael Beswick

*Senior Vice President
Pensions*

Wayne Gladstone

*Senior Vice President
Finance & Administration*

Tom Gunn

*Senior Vice President
Investments*

Gillian Platt

*Senior Vice President
Corporate Affairs*

Advisors to the Board

Actuary

Watson Wyatt Worldwide

Auditors

KPMG LLP

Legal Advisor

Osler, Hoskin & Harcourt

Master Custodian

State Street Canada Inc.

Medical Advisor

Dr. D. Lewis

ACTUARIAL COST CERTIFICATE

AS AT DECEMBER 31, 1998 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1997 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Standard of Practice for Valuation of Pension Plans adopted by the Canadian Institute of Actuaries for going concern valuations.

The actuarial valuation of OMERS as at December 31, 1997 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion, the data are sufficient and reliable for the purposes of actuarial valuation.

In our opinion, the assumptions adopted for our actuarial valuation of OMERS are appropriate, and the methods employed are consistent with sound actuarial principles. Nonetheless, the experience of OMERS in the future may be different from the actuarial assumptions, and may result in gains or losses which will be revealed in future actuarial valuations.

The results of the actuarial valuation of the registered pension plan benefits disclosed total going concern Actuarial Liabilities of \$21,105.221 million in respect of benefits accrued for service to December 31, 1997, including the effect of an ad hoc adjustment to pensions as at January 1, 1998 and the plan amendments known as "The Five-Year Initiative". The Actuarial Assets at that date were \$25,790.509 million indicating a going concern Actuarial Surplus of \$4,685.288 million, of which \$1,055.261 million has been allocated to a Funding Stabilization Reserve by the Board. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 1997 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was \$31.398 million, leaving an overall Actuarial Surplus of \$4,653.890 million.

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the funded position of the Plan assuming it had been wound up on December 31, 1997. In our opinion, the value of the Plan assets would have been greater than the actuarial liabilities if the Plan had been wound up on that date.

We have considered the likely development of the Actuarial Liabilities during 1998 taking into account amendments made to the Plan up to December 31, 1998. Further, we have calculated the Actuarial Assets at December 31, 1998.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1998 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date on both a going concern basis and a wind up basis.

Respectfully submitted
WATSON WYATT & COMPANY



Martin J.K. Brown, F.I.A.
Fellow, Canadian Institute of Actuaries
March 25, 1999

Auditors' Report

TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1998 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 1998 and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
March 25, 1999

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1998

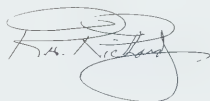
Consolidated Statement of Net Assets

(Millions)

As at December 31	1998	1997
ASSETS		
Investments (note 4)	\$ 32,529	\$ 29,376
Accrued income	139	133
Amounts due from pending trades	158	111
Other assets (note 7)	30	108
Total Assets	32,856	29,728
LIABILITIES		
Due to administered pension funds (note 8)	437	395
Amounts payable from pending trades	916	102
Other pension liabilities	123	123
Total Liabilities	1,476	620
NET ASSETS (NOTE 9)	\$ 31,380	\$ 29,108

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board



Member



Member

Consolidated Statement of Changes in Net Assets

(Millions)

For the year ended December 31	1998	1997
INCREASES IN NET ASSETS		
Contributions (note 10)	\$ 372	\$ 890
Net investment income (note 11)	2,867	3,692
Total Increase	3,239	4,582
DECREASES IN NET ASSETS		
Benefits (note 12)	920	812
Administrative expenditures (note 13)	47	40
Total Decrease	967	852
INCREASE IN NET ASSETS	2,272	3,730
Net assets at beginning of year	29,108	25,378
NET ASSETS AT END OF YEAR	\$ 31,380	\$ 29,108

The accompanying notes to the consolidated financial statements are an integral part of this statement.

GENERAL

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the *Ontario Municipal Employees Retirement System Act* (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the *Ontario Pension Benefits Act*, Registration #0345983.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The *Pension Benefits Act* (PBA) of Ontario requires that participating employers fund the benefits determined under the plan. In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability waivers and pensions, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the *OMERS Act and Regulation* or by contacting OMERS.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

CONSOLIDATION

OMERS holds certain investments through a variety of corporate structures, including subsidiaries and joint ventures. Subsidiaries are entities controlled by OMERS through ownership of a majority of the voting shares. Joint ventures are economic activities jointly controlled by OMERS together with various partners through a proportionate ownership of the voting shares.

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

the proportionate share belonging to OMERS of the assets, liabilities, and operating income of joint ventures. All significant intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

INVESTMENTS

Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. As such, publicly traded securities are recorded as of the trade date of the transaction.

Investments are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and portfolio credit risk that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is reflected in net investment income in the statement of changes in net assets as unrealized appreciation of investments.

Fair values of investments are determined as follows:

- i) Short-term deposits are recorded at cost which, together with accrued interest income, approximates fair value.
- ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.
- iii) Real estate, composed primarily of income producing properties, is generally valued based on appraised values determined annually by independent appraisers in accordance with generally accepted appraisal practices and procedures, based mainly on discounted cash flows. In performing the appraisals, certain assumptions are made with respect to future economic conditions and rates of return. Jones Lang Wootton Canada Inc. and Colliers Macaulay Nicolls Inc. are the firms of independent appraisers used.
The fair value of real estate which has been recently acquired is based on the purchase price.
- iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk.
- v) Interest rate swaps, equity index swaps, bond futures contracts, equity index futures contracts, and forward foreign exchange contracts are valued at year-end market prices determined by quoted market values where available or discounted cash flows using current market yields, where quoted market values are not available.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Investment income, includes dividends, interest income and real estate operating income, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation in the fair value of investments.

NON-INVESTMENT ASSETS AND LIABILITIES

The fair value of contributions receivable, accrued income, amounts due from pending trades, other assets, amounts due to administered pension funds, amounts payable from pending trades and other pension liabilities approximate their carrying amounts.

FOREIGN CURRENCY TRANSLATION

OMERS makes investments denominated in various foreign currencies. The fair values of such investments are included in the statement of net assets and are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in unrealized appreciation of investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss is recognized in realized gains on disposal of investments.

NOTE 2 - YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect OMERS ability to conduct normal business operations. OMERS has implemented a process which is designed to minimize the effects of the Year 2000 problem. This process includes reviewing and adjusting internal systems, interfaces with suppliers and other third parties and assessing the readiness of investee companies, properties and investment managers. However, it is not possible to be certain that all aspects of the Year 2000 issue affecting OMERS, including those related to the efforts of investee companies, suppliers, or other third parties, will be fully resolved.

NOTE 3 - RESPONSIBILITIES OF THE ACTUARY AND EXTERNAL AUDITORS

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1998

NOTE 3 – RESPONSIBILITIES OF THE ACTUARY AND EXTERNAL AUDITORS (CONTINUED)

The external auditors are also appointed by the Board. Their responsibility is to report to the Board regarding the fairness of presentation of OMERS net assets, and changes in net assets as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuary for the actuarial liabilities as disclosed in the notes to the financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

NOTE 4 - INVESTMENTS

(Millions)	1998		1997	
	Fair Value	Cost	Fair Value	Cost
INTEREST BEARING INVESTMENTS				
Cash and short-term deposits	\$ 4,298	\$ 4,298	\$ 2,760	\$ 2,760
Canadian bonds and debentures	5,860	5,376	5,272	4,722
Non-Canadian bonds	1,547	1,391	1,216	1,180
Private debt	175	173	113	110
Mortgages	1,067	1,006	1,213	1,144
	\$ 12,947	\$ 12,244	\$ 10,574	\$ 9,916
NON-INTEREST BEARING INVESTMENTS				
Canadian equities	9,680	7,078	10,366	6,510
Non-Canadian equities	5,399	3,520	5,182	3,850
Real estate	3,995	3,916	2,780	2,938
Resource properties	69	83	56	48
Canadian private equities	207	137	228	158
Non-Canadian private equities	232	169	190	159
	\$ 19,582	\$ 14,903	\$ 18,802	\$ 13,663
Total Investments	\$ 32,529	\$ 27,147	\$ 29,376	\$ 23,579

At December 31, 1998, the Fund held the following investments, each having a fair value or cost exceeding 1% of the fair value or cost of total investments:

	1998 Aggregate			1997 Aggregate		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Canadian equities	4	1,618	612	6	2,172	867
Real estate properties	3	1,266	1,111	2	693	622
Canadian bonds and debentures	1	421	391	2	578	472
	8	3,305	2,114	10	3,443	1,961

Real estate investments above include ownership interest in the following properties, all of which are located in Ontario: Scarborough Town Centre, Square One Shopping Centre and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through joint ventures. The fair value of OMERS proportionate share in these assets was \$1,255 million at December 31, 1998 (1997 – \$1,238 million). The net income earned from OMERS investment in joint ventures was \$86 million for the year ended December 31, 1998 (1997 – \$66 million) and is included in net investment income from real estate.

NOTE 4 - INVESTMENTS**(CONTINUED)**

OMERS has guaranteed certain of the obligations of its joint ventures and is contingently liable for the obligations of its associates in certain joint venture developments. The assets of the joint ventures are available and are sufficient for the purpose of satisfying such obligations.

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 1998, securities with an estimated fair value of \$2,438 million (1997 - \$783 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of \$2,560 million (1997 - \$822 million).

RISK MANAGEMENT

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility and credit risk. OMERS has set formal policies and procedures that establish an asset mix among equities, fixed income securities and real estate; require diversification of investments within categories; and set limits on the size of exposure to individual investments and counterparties. In addition derivative financial instruments are used, where appropriate, to assist in the management of these risks (see note 6).

FOREIGN CURRENCY:

Foreign currency exposure arises from the Fund holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments.

The Fund's holdings by geographical location of the issuer as at December 31 are as follows:

<i>(Millions - Canadian Dollar Equivalent)</i>	1998	1997
Canada	\$ 23,133	\$ 21,796
United States of America	4,075	3,279
United Kingdom	911	620
France	669	441
Other Western Europe	1,979	1,526
Japan	968	868
Other Pacific	296	290
Emerging Markets	498	556
	\$ 32,529	\$ 29,376

Canadian assets backing derivatives have been allocated to the geographical location of the derivatives counterparty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1998

NOTE 4 - INVESTMENTS

(CONTINUED)

The Economic and Monetary Union for Europe (EMU) began January 1, 1999. On this date the eleven member countries of the European Union merged their individual currencies into one currency known as the euro. As at January 1, 1999 all OMERS investments (\$2,027 million Canadian Dollar equivalent) held in the currency of the participating countries were converted into euro, based on conversion rates set on January 1, 1999.

INTEREST RATE VOLATILITY:

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuation of interest rates. The risk arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities. Pension liabilities are influenced by inflation and long-term rates of return while asset values are affected more by equity markets and short-term changes in interest rates. The fixed income portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

Term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities, are as follows:

	1998					1997	
	Term of Maturity						
(Millions)	Within 1 Year (\$)	1 to 5 Years (\$)	Over 5 Years (\$)	Total (\$)	Average Effective Yield	Total (\$)	Average Effective Yield
Cash and short-term deposits	4,298	—	—	4,298	5.14%	2,760	3.97%
Canadian bonds and debentures	91	2,379	3,390	5,860	5.22%	5,272	5.75%
Non-Canadian bonds	37	780	730	1,547	4.15%	1,216	5.39%
Private debt	18	30	127	175	8.05%	113	7.54%
Mortgages	90	608	369	1,067	6.95%	1,213	7.44%
Total	4,534	3,797	4,616	12,947	5.25%	10,574	5.47%

Average effective yield is based upon fair value as at the year-end date.

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 8.3% (1997 – 3.9%) of the Canadian bonds and debentures. Non-Canadian bonds are liquid and marketable government debt issues consisting primarily of the 12 member countries of the Organization for Economic Cooperation and Development.

CREDIT RISK:

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 6.

NOTE 5 – REAL ESTATE ACQUISITION

In 1998 OMERS reached an agreement with Hammerson PLC of the United Kingdom whereby OMERS, through its wholly owned subsidiary, OMERS Realty Corporation, purchased all of the outstanding common shares of Hammerson Canada Inc. for \$842 million. Hammerson Canada owns and manages several retail and office facilities in Ontario.

The following assets and liabilities were acquired effective December 31, 1998:

Fair value of tangible assets acquired	\$	852
Liabilities assumed		(78)
Goodwill arising from purchase		68
Total purchase cost	\$	842

Goodwill represents all the intangible factors which contribute to the earnings capacity of a company. This difference between the cost of the investment and the fair value of the net assets acquired is deferred and the components will be amortized to income over their estimated period of benefit to OMERS.

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset mix management and to assist in the management of financial risks, including interest rate volatility and foreign exchange risks. In certain circumstances derivatives are used to increase returns or to replicate investments synthetically.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. OMERS enters into derivative investment activities in combination with the cash and short-term deposits portfolio. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- **Swaps**, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.
- **Forwards and futures**, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

OMERS credit risk exposure is represented by the receivable replacement value of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1998

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

(CONTINUED)

contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date. Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- **Replacement cost:** represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

(Millions)	1998				1997	
	Fair Value				Notional Value	Credit Risk (replacement cost)
	Notional Value	Gross Assets	Gross Liabilities	Credit Risk (replacement cost)	Value	(replacement cost)
Interest rate swap contracts	\$ -	\$ -	\$ -	\$ -	\$ 520	\$ 21
Equity index swap contracts	917	84	-	84	420	8
Bond futures contracts	-	-	-	-	144	1
Equity index futures contracts	2,495	12	(1)	12	893	-
Foreign exchange forward contracts	571	7	(9)	7	1,066	10
Total	\$3,983	\$ 103	\$(10)	\$ 103	\$ 3,043	\$ 40

All derivative instruments mature within one year.

NOTE 7 - OTHER ASSETS

(Millions)	1998	1997
Contributions receivable	\$ 2	\$ 73
Long term receivables ⁽¹⁾	21	28
Other	7	7
	\$ 30	\$ 108

Under the terms of the *OMERS Act and Regulation* certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long-term receivables to be paid, with interest, over a period not to exceed fifteen years. The fair value of the long-term receivables, which are valued using discounted cash flows using current market yield, is approximately \$21 million (1997 - \$28 million).

NOTE 8 - DUE TO ADMINISTERED PENSION FUNDS

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with amounts based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

NOTE 9 - NET ASSETS

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long-term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	1998	1997
Assumed rate of inflation	4.0%	4.0%
Assumed rate of pensionable earnings increases	5.5%	5.5%
Assumed actuarial rate of return on plan assets	7.5%	7.5%

The extrapolation of the actuarial valuation to December 31, 1998, which follows, takes account of amendments made to the plan up to December 31, 1998. The 1997 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1997.

(Millions)	1998	1997
Fair value of net assets at end of year*	\$ 31,372	\$ 29,100
Adjustment to the fair value for actuarial purposes	(3,135)	(3,310)
Actuarial value of net assets at end of year	28,237	25,790
Actuarial present value of accrued pension benefits at beginning of year	21,105	19,660
Ad hoc increases to pension benefits	18	38
Interest accrued on benefits	1,582	1,478
Benefits accrued	908	893
Benefits paid	(920)	(811)
Plan amendments	—	520
Experience gains	(567)	(673)
Actuarial present value of accrued pension benefits at end of year	22,126	21,105
Full earnings pension assets	8	8
Full earnings pension liability	37	39
Net liability of full earnings pension	29	31
	22,155	21,136
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	\$ 6,082	\$ 4,654

*Excludes full earnings pension assets

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1998

NOTE 9 - NET ASSETS

(CONTINUED)

A portion of the excess of actuarial value of net assets over the actuarial present value of accrued pension benefits has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve as at December 31, 1998 is \$1,106 million (1997 - \$1,055 million).

The full earnings pension benefit was set up within the *OMERS Act and Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*.

During 1997, the OMERS Board proposed and the Ontario Government approved changes to the benefits provided under the OMERS Plan. These changes were made in anticipation of the growing funded ratio and include:

- Effective in 1998, member and employer contributions were reduced by two percentage points.
- The age plus years of service factor which entitles members to an unreduced early retirement pension was reduced from 90 for Normal Retirement Age 65 members and 85 for Normal Retirement Age 60 members to 85 and 80 respectively for members who retire on or after November 30, 1997 and on or before December 31, 2002.
- The early retirement reduction factor for members not entitled to an unreduced early retirement pension was reduced from 5.0% per year to 2.5% per year for members who retire on or after November 30, 1997 and on or before December 31, 2002.
- Effective January 1, 1998 survivor pensions were increased from 60.0% to 66.67%.
- All pensions for retired and deferred vested members of OMERS were increased, if necessary, to match the increase in inflation from date of retirement or termination to January 1, 1998. Similar increases were applied to the deemed earnings of members on disability waiver.

Effective August 1998, the Board approved a full contribution holiday for members and employers. The contribution holiday will be reviewed annually by the Board, based on the funded position of the plan each year.

SOLVENCY VALUATION

The actuarial value of net assets and the actuarial present value of accrued pension benefits is presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act* of Ontario, a wind-up valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. The actuarial present value of accrued pension benefits, excluding the full earnings pension benefits, was estimated to be \$24,000 million as at December 31, 1998, (1997 - \$21,260 million). Under the solvency valuation, net assets are based on their fair value. As at December 31, 1998, the fair value of net assets excluding the full earnings assets was \$31,372 million (1997 - \$29,100 million). A reasonable allowance for the expenses of winding up the plan would not significantly reduce assets available for benefits.

NOTE 10 - CONTRIBUTIONS

(Millions)	1998	1997
Members	\$ 176	\$ 428
Employers, current service	176	428
Employers, long-term receivables and interest thereon (note 7)	8	21
Transfers from other pension plans	6	6
Other contributions	6	7
	<u>\$ 372</u>	<u>\$ 890</u>

During the first seven months of the year, members and employers contributions were reduced by two percentage points from 1997 levels. Also, effective August 1998, a contribution holiday for both members and employers was put into place. These initiatives were introduced to reduce the actuarial surplus as discussed in note 9.

NOTE 11 - NET INVESTMENT INCOME

(Millions)	1998	1997
Short-term deposits	\$ 126	\$ 64
Canadian bonds	380	379
Non-Canadian bonds	88	42
Private debt	12	11
Mortgages	102	146
Canadian equities	185	183
Non-Canadian equities	74	79
Real estate	217	184
Resource properties	10	(1)
Canadian private equities	(13)	(17)
Non-Canadian private equities	6	7
Derivative instruments ⁽¹⁾	399	94
	<u>\$ 1,586</u>	<u>\$ 1,171</u>
Realized gains on disposal of investments	1,748	1,354
Unrealized appreciation/(depreciation) in the fair value of investments	(415)	1,229
	<u>2,919</u>	<u>3,754</u>
Less income credited to:		
Administered pension funds	(39)	(51)
Provision for supplementary retirement benefits	(13)	(11)
	<u>\$ 2,867</u>	<u>\$ 3,692</u>

⁽¹⁾Derivative instruments include realized and unrealized income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1998

NOTE 11 - NET INVESTMENT INCOME

(CONTINUED)

Investment income by asset class, after allocating the income from derivative contracts and the realized and unrealized gains and losses on investments, for the year ended December 31, is as follows:

(Millions)	1998	1997
Fixed income	\$ 1,106	\$ 851
Canadian equities	(171)	1,766
Non-Canadian equities	1,550	787
Real estate	434	350
	<u>\$ 2,919</u>	<u>\$ 3,754</u>

NOTE 12 - BENEFITS

(Millions)	1998	1997
Members' pensions	\$ 761	\$ 699
Commuted value payments	105	66
Members' contributions plus interest refunded	44	38
Transfers to other pension plans	10	9
	<u>\$ 920</u>	<u>\$ 812</u>

NOTE 13 - ADMINISTRATIVE EXPENDITURES

A) OPERATING EXPENSES

(Millions)	1998	1997
Personnel services	\$ 22.0	\$ 20.7
Transportation and communication	2.1	1.6
Actuarial services	0.3	0.3
Audit services	0.4	0.3
Legal services	0.6	0.4
Other professional services	0.6	1.1
Occupancy costs and municipal taxes	2.8	2.3
Systems development purchased services	9.1	4.4
Other purchased services	5.4	5.0
Equipment and depreciation	2.6	2.9
Materials and supplies	1.3	1.3
	<u>\$ 47.2</u>	<u>\$ 40.3</u>

NOTE 13 - ADMINISTRATIVE EXPENDITURES

(CONTINUED)

B) COMPENSATION

The following information is furnished in compliance with the *Public Sector Salary Disclosure Act 1996*.

Employee	Position Held	1998 Salary*	Benefits**
Anthony, C	Portfolio Manager, FX & Short Term Bonds	\$ 106,831	\$ 308
Bale, B	Senior Portfolio Manager, Core Fund	140,414	400
Beswick, M ⁽¹⁾	Senior Vice President, Pensions	160,609	8,583
Buie, J	Vice President, Corporate Planning & Budget	114,073	407
Burgess, L	Senior Portfolio Manager, Private Placements	136,638	391
Carlin, C	Senior Portfolio Manager, Small Cap. Fund	130,077	375
Clark, L	Vice President, Economic Policy & Strategic Research	110,961	394
Collier, I	Vice President, Merchant Banking & Private Placements	182,693	529
Eastman, E	Portfolio Manager, Canadian Active Bonds	106,273	376
Estabrooks, D	Vice President, Financial Services	108,446	387
Fotheringham, R	Senior Portfolio Manager, Derivatives	122,996	362
Friend, P***	Senior Portfolio Manager, Private Placements	113,722	247
Funston, E	Vice President, Pension Administration	142,607	412
Gladstone, W ⁽¹⁾	Senior Vice President, Finance & Administration	173,100	7,056
Gray, M	Senior Vice President, Portfolio Management – Office	151,673	557
Gunn, T ⁽¹⁾	Senior Vice President, Investments	309,567	4,572
Jarvis, P	Vice President, Fixed Income	115,192	358
Knowlton, M***	Senior Vice President, Finance ORC	193,501	378
Lai, T	Portfolio Manager, Foreign Bonds	122,124	351
Latimer, M	Managing Director, ORC	305,943	929
Leckman, D	Vice President, Public Market Equities	178,485	538
Lurz, M	Vice President, Pension Policy & Communications	102,894	377
MacDonald, M	Director, Pension Finance Policy	111,600	396
Morrison, J	Senior Vice President, Portfolio Management – Retail	236,672	611
Paget, M	Manager, Application Services	106,835	341
Peto, D	Portfolio Manager, Equity Trading	122,783	365
Platt, G ⁽¹⁾	Senior Vice President, Corporate Affairs	139,483	7,481
Richmond, D ⁽¹⁾	President & C.E.O.	353,785	20,862
Senst, G	Vice President, Real Estate	154,934	524
Vaillancourt, C	Vice President, Information Services	157,131	489

*Salary includes incentive bonuses awarded on attainment of total fund, corporate and divisional goals and objectives

** Taxable benefits include life insurance, car allowance and other taxable perquisites

***No longer employed by OMERS or OMERS Realty Corporation

⁽¹⁾EXECUTIVE COMPENSATION

OMERS executive compensation programs are designed to be competitive in order to attract, retain and reward the broad-based management talent needed to achieve the organization's objectives. In determining appropriate compensation levels for OMERS' executives, a range of comparison groups is referenced and may include other large public sector pension funds, large private sector pension funds, financial service organizations, the broader public sector – hospitals, agencies and commissions. Comparison groups can vary with executive position.

In 1998, the Board finalized and approved a complete review of executive compensation within OMERS, assisted by independent professional compensation consultants. The Compensation Sub-Committee of the Board reviews external executive compensation trends and practices.

FIVE YEAR REVIEW

YEAR ENDED DECEMBER 31, 1998

Five Year Review of Financial Data

(\$ Millions)	1998	1997	1996	1995	1994
*INVESTMENTS AT MARKET					
Ontario debentures	773	804	828	818	996
Marketable securities	31,756	28,572	24,788	20,459	19,650
	32,529	29,376	25,616	21,277	20,646
*NET ASSETS AT MARKET VALUE FOR					
Total Fund	31,380	29,108	25,378	21,213	18,389
Liability for:					
Supplementary benefits agreements	116	110	121	120	134
Administered pension funds	437	395	341	345	2,463
	31,933	29,613	25,840	21,678	20,986
INVESTMENT INCOME EARNED					
(INCOME INCLUDES UNREALIZED GAINS/LOSSES)					
Basic plan	2,867	3,692	4,074	2,625	310
Basic plan unfunded liabilities	13	11	9	11	13
Administered pension funds	39	51	55	381	44
	2,919	3,754	4,138	3,017	367
CONTRIBUTIONS RECEIVED FOR					
Basic plan	364	869	874	869	870
Basic plan unfunded liabilities	8	21	8	6	9
Supplementary benefit agreements	—	—	—	1	—
	372	890	882	876	879
PAYMENTS TO MEMBERS					
Pensions paid	761	699	661	570	491
Contributions and interest refunded	149	104	89	67	51
Transfers to other plans	10	9	6	6	4
	920	812	756	643	546
EXPENDITURES					
Administration	47	40	35	33	33
Investment Operating	30	24	25	22	18
	77	64	60	55	51
TOTAL FUND ANNUAL RATES OF RETURN					
Time-weighted return on market value	10.1%	14.8%	19.3%	14.2%	1.8%

*market value as at December 31

OMERS

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

One University Avenue, Suite 1000,
Toronto, Ontario M5J 2P1

Tel: 416.369.2400

Toll-free: 1.800.387.0813

E-mail: client@omers.com

Web: www.omers.com

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Government
Publications

Ontario Municipal Employees Retirement System

Annual Report 1999

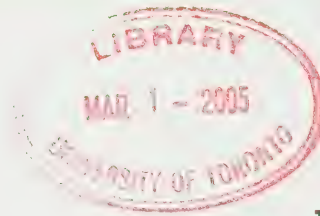
Our Vision

OMERS will be an autonomous, self-funded pension plan managed by and for its members and employers.

OMERS will provide a choice of pension options for employees engaged in the delivery of local government services.

OMERS will keep its "pension promise" through prudent investment and cost effective management.

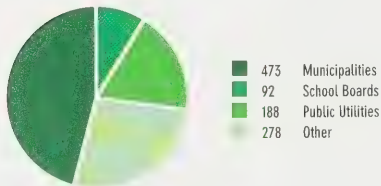
1999 Highlights



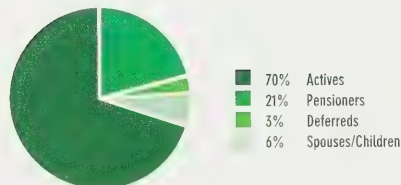
Profile

OMERS serves more than 1,000 employers and 50 unions and associations. Plan membership has grown to 271,000.

Employers



Members

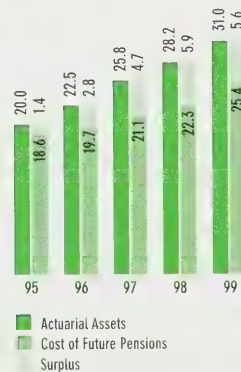


Performance

OMERS has posted another strong return in 1999. Investment assets now total \$35.3 billion.

- One-year results 15.2%
- Four-year results 14.8%
- Ten-year results 11.1%

Asset growth versus cost of future pensions (\$ billions)



Our Core Values

We provide high quality service
to all our clients.

We treat each other with respect,
fairness, trust and dignity.

Contents

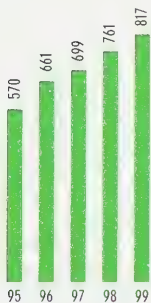
02	Chair's Report	25	Financial Statements and Notes
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12	Investment Services	41	Mandate and Governance
19	Financial Performance		
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Member Services

As the Plan continues to grow, OMERS is committed to providing service and plan improvements.

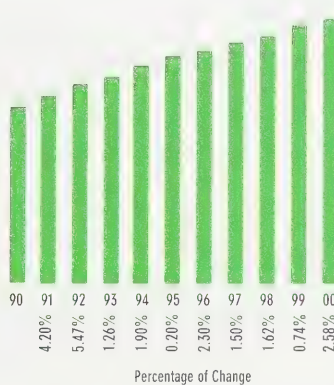
The value of an OMERS pension grows each year by the rate of inflation. A member who received a \$20,000 pension in 1990 would receive almost \$25,000 today.

Pension payroll
(\$ millions)



**Growth in pension benefits
due to inflation protection**

\$20,000 in 1990 increases to \$24,779 by 2000



Chair's Report



I have had the honour of serving as a member of the Board since 1992 and have seen first hand how well OMERS works under the management of both local employers and their employees.

OMERS was one of the first pension funds in Canada to adopt a joint management model and it has produced great results for plan members. Joint management makes sense because employers and employees are equally responsible for plan contributions as well as sharing funding gains and losses. Their Board representatives keep the focus on what matters – reliable pension income, competitive benefits and responsive pension services.

Value of representative Board

The representative nature of our Board is a constant reminder that policies and decisions must be in the best interests of all our stakeholders.

We are responsible for providing secure pension benefits to a broad spectrum of members who work in large cities and regional governments, small towns and villages, as well as school boards, libraries, hydro utilities, health care centres and children's aid societies. We are also responsible for ensuring these benefits are provided at reasonable cost to our members and employers.

The Board consists of six employee and six employer representatives, as well as one representative of the province. The employee representatives include a retiree. We are one of the few plans to have a pensioner on the Board.

Typically, a pensioner gets back the value of life-time contributions, plus interest, within five years of retiring.

Highly effective organization

Joint management, with day-to-day responsibility assigned to professionals, is a key reason why OMERS is a perennial top performer among major institutional investors in Canada. The Board oversees these professionals and ensures they deliver the pension promise, manage the assets prudently, and run a customer-focused organization that's getting better year by year. To ensure we consistently meet high governance standards, in 1999 we were the first Canadian pension plan to initiate a full board evaluation process, using the expertise of an independent management firm.

The results speak for themselves. As a public health nurse who is a member of the Plan, I am happy that a secure pension, protected against inflation, with benefits for my survivors, will be waiting for me at the end of my career.

Money in the pockets of members

OMERS has performed so well in recent years that we are returning more than \$5 billion of surplus funds to active members, pensioners and local employers throughout Ontario. This re-investment in the community is helping to fuel Ontario's robust economic growth by putting money into the pockets of active members and pensioners, as well as the coffers of local employers at a time of fiscal strain.

However, sharing the surplus is not an easy task. We are committed to paying all members the pension benefits they are entitled to, based on their best five years of earnings and years of credited service. In practice, we have continually enhanced benefits beyond that. The Board reviews the surplus annually and will provide further improvements if possible.

All in all, we are pleased with joint management by employers and employees in overseeing a dedicated management team. The plan has always been fully funded and financially stable. Keeping it that way is the continuing mission of the members of the Board.



Susan O'Gorman
Chair

President's Report



MERS has grown into one of the largest pension funds in Canada, earning investment income from across the country and around the world. The Fund achieved an enviable 15.2% investment return in 1999, with a four-year return of 14.8%, and entered the millennium with a healthy surplus.

The \$5.6 billion surplus reflected a \$2.7 billion increase in actuarial net assets to \$31.0 billion, thanks primarily to strong stock markets and slower than anticipated growth in the cost of future pensions due to low inflation and modest salary increases.

We earned \$4.6 billion in net investment income in 1999. The Canadian stock market, where we make most of our equity investments, was among the best performers in the world for a change. However, its stellar growth was almost entirely due to appreciation in two stocks, BCE and Nortel, whose share appreciation dominated the Toronto Stock Exchange.

We continued to deliver strong member service during a year of exceptional growth in pension administration. The workload soared as active members responded to the early retirement incentive program and pensioners inquired about plan enhancements under the surplus management initiatives. The continued amalgamation of municipalities throughout Ontario placed higher demands on our resources, and we were pleased to help employers with their pension services during a time of transition.

A major development at year-end was the introduction of our new Membership Services System, which will enable us to better respond to increased demand. Using advanced technology, the system is the bedrock on which we are building a much improved service delivery to employers, active members and pensioners. This system is described in greater detail in the Pension Services section.

Our priority, of course, is to make sure that all members receive the secure pension benefits to which they are entitled. To deliver the pension promise, we have developed a highly effective organization, managed by a team of professionals with expertise in investment products, pension services, plan administration and corporate leadership. The jointly-managed Board serves as a vital governance check in making sure management remains focused on maximizing investment returns, managing assets prudently, and providing active members, pensioners and employers with the services they need.

The OMERS pension can be viewed as the cornerstone of the member's retirement income, augmented by personal savings and government programs.

We are well positioned for the future and have developed with the Board a strategic plan designed to win OMERS greater autonomy from provincial control, strengthen our accountability, improve client services and better manage risk in all facets of our operations.

The demands on OMERS will continue to escalate as an aging membership enters retirement. The Plan's youngest current member will retire around 2035 and could collect pension benefits until 2070 or beyond. Consequently, ensuring the plan carries as much surplus as permissible under the federal tax legislation is critical to reassuring all members that the money will be there when they retire over the next three and a half decades.

Our job is to ensure that members receive a good pension at low cost to them, now and in the future. We are ready for the challenges of a new century in serving the pension interests of those we care about the most – our active members and pensioners.

I would like to thank the Board for its vision and leadership and our employees for their dedication and hard work. OMERS has achieved consistently high results on behalf of all our members because of their efforts.

A handwritten signature in dark ink, appearing to read "D. Richmond", with a stylized flourish at the end.

Dale E. Richmond
President and CEO

Pension Services

The delivery of pension services to active members is the joint responsibility of OMERS and more than 1,000 local employers throughout Ontario. Serving the needs of retired members and their survivors is the sole responsibility of OMERS.

Our pension services faced unprecedented demands in 1999 as a result of widespread benefit improvements and the continued amalgamation of local governments. At the same time, we completed the first phase of a five-year plan to introduce the most modern pension management system in the industry.

\$5.2 billion on Surplus Management Initiatives

Benefit Improvements (\$1.2 billion)

100% guaranteed inflation protection

Change to CPP offset means larger OMERS lifetime pension

Over 35 years, contributions refunded

Restructuring Assistance (\$1 billion)

Better early retirement provisions

Retire 15 years before normal retirement age

Cost Relief (\$3 billion)

Contribution holiday

Latest benefit improvements

In May 1999 we introduced further plan improvements for active members, employers and pensioners, following consultation with representatives of these stakeholder groups. The most recent benefit enhancements are:

1. Guaranteed 100% inflation protection

Protecting against inflation has always been a priority for retirees. In the past, pensions were "topped up" against inflation on an ad hoc basis, depending on the plan's financial position. Now all current and future pensions are inflation protected up to 6% each year, a change that benefits about 75,000 pensioners immediately.

2. Up to 100% survivor benefits

We have periodically improved pensions for surviving spouses since 1971. In 1998 they were increased to 66 2/3%, the maximum allowed by the federal *Income Tax Act*. Now surviving spouses are entitled to the 66 2/3% of the member's pension, plus 10% per dependent child to the maximum of 100%. This change could benefit many of the 14,000 surviving spouses and will, of course, benefit all future ones.

3. Extension of the contribution holiday

The original contribution holiday from June 1998 until July 1999 now continues until the end of 2001. It is subject to an annual review by the Board to ensure sufficient surplus funds are available.

It is expected that contribution levels will be phased in after 2001, returning to normal on January 1, 2004. For most members eligible to retire at 65, the normal contribution level is 6% of salary up to the Year's Maximum Pensionable Earnings (YMPE), and 7.5% beyond that. For 13% of active members, mostly police officers and firefighters, who are eligible to retire at 60, it is 7% of salary up to the YMPE and 8.5% beyond that. The YMPE for 2000 is \$37,600.

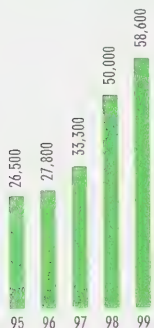
During the contribution holiday, members continue to earn credited service as if they were making contributions. Consequently, their pensions are not affected.

A photograph of a forest floor. In the foreground, there is a dense carpet of green ferns and small leafy plants. Several large, dark tree trunks are visible, with one particularly large trunk on the right side of the frame. The background shows more trees and a soft, dappled light filtering through the canopy.

Secure

Providing secure pensions for
our members is our greatest priority

Phone Calls



The number of phone calls increased by 18% in 1999

4. Higher pensions

The Canada Pension Plan introduced a new pension calculation that effectively reduced benefits to our members. We responded by revising the CPP offset formula so that OMERS will pay higher lifetime benefits to members. The offset has been lowered from 0.7% per year of credited service at age 65 to 0.675%, and we have moved to a five-year average of the Year's Maximum Pensionable Earnings. These changes will be retroactive to January 1, 1999, but still await government approval.

5. Refund of contributions after 35 years of service

Members with more than 35 years service no longer have to pay into the pension plan and excess contributions have been refunded. This has meant an average payment of more than \$9,000 to affected members.

6. Further enhanced early retirement incentives

Under the latest package, the early retirement incentive is improved to an 80 factor for those normally eligible to retire at 65 and a 75 factor for those normally eligible to retire at 60 if they retire between January 1, 1999 and December 31, 2001. As well, members can retire up to 15 years, rather than 10 years, before their normal retirement date.

Soaring business volumes

The introduction of new benefits, the rising demands for information by members approaching retirement and a larger membership were among the factors that increased our work volumes in 1999.

In May alone, when the latest surplus package was announced, we received more than 3,000 requests for quotes, compared to less than 600 a month, which is our normal average. For the full year, we received almost 59,000 phone calls (an 18% increase over 1998), and 16,269 requests for pension quotes (a 56% increase).

The higher business volumes caused a temporary backlog in regular service, but due to extraordinary staff efforts, by year-end the backlog was cleared. We will monitor service levels on an ongoing basis as we continue to upgrade our systems to meet increased demands.

Local government amalgamation

The introduction of the surplus management initiatives and early retirement incentives coincided with the restructuring of local governments that began in 1997 and is expected to continue for two more years.

OMERS is one of few pension funds that has a diverse employer base, adding to the complexity of plan administration. In 1999, about 450 local partners also had supplementary benefits that we administer. As local employers reduced their administrative staff, we assumed greater responsibility in helping them provide pension services to their employees.

Expanding membership

Despite municipal downsizing during the past two years, plan membership continues to grow as the province transfers services to local government, reaching more than 271,000 at the end of 1999.

In fact, OMERS attracted several new employers in 1999 – for example, GO Transit, with approximately 1,100 employees, and the Ontario Property Assessment Corporation, with 2,000 employees. By choosing OMERS, they cast a vote of confidence in our Plan.

Pensioner services

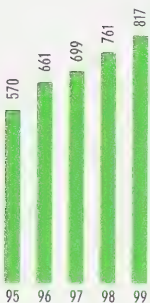
The pension payroll was \$817 million in 1999, a 7% increase over the previous year. The pensioner population grew by 4.8% to 75,336 people, including members receiving disability pensions, surviving spouses and dependent children.

New retirements were 5,719 in 1999, of which 3,563 were early retirements, versus 3,706 new retirements and 2,646 early retirements a year earlier.

All members receive a pension based on 2% of their best five years of earnings multiplied by their years of credited service to a maximum of 35 years. Members with 35 years of credited service no longer contribute. At age 65, the pension is adjusted to integrate with the Canada Pension Plan.

The pensions of individual members vary greatly, consistent with the inherent diversity of the OMERS plan. Our members include librarians, clerks, police and firefighters, children's aid workers and municipal politicians, who earn a broad range of salaries. The average salary is about \$41,000 and the average pension of a member retiring in 1999 was \$15,900.

Pension payroll
(\$ millions)



The pensioner payroll rose by 7% in 1999



growth

Our members receive a lifetime pension
that grows to keep pace with inflation



Pension Services

The most modern plan administration

We constantly strive to improve service. In January 2000, we brought online our new Membership Services System to give OMERS the most modern pension administration in Canada.

Custom built from scratch to our specifications, the system enables us to deliver higher quality service at reduced costs, better manage the collection and verification of member information, eliminate manual processes, maintain data integrity and ensure flexibility in adapting to future requirements. For example, the new system will help to shorten the turnaround time for pension and termination quotes.

We are committed to better managing expectations through more effective communications, monthly monitoring and reporting on pressures and performance, and extensive staff training.

Maria enrolled in OMERS on January 1st, 1975 and when she retired 25 years later at age 65, she was earning about \$40,000. Maria's contributions to the plan, with interest, total about \$72,000. She will receive around \$365,000 in pension benefits by the time she's 85.

Member communications

Our commitment to excellence in customer service includes open communications with employers, employees and pensioners.

Ongoing communications with active members and pensioners include newsletters, two open general meetings, the web site at www.omers.com, a phone information service at 1-800-387-0813 and hundreds of general information and pre-retirement meetings around the province.

A recent member survey indicated a need for us to make better use of technology, especially the Internet, in handling inquiries and providing member access to pension information. With that in mind, we introduced a retirement planner on our web site in 1999. Called the Estimator, the program is a pension industry leader. It enables members to project their pension up to retirement by changing various basic assumptions to identify different retirement options.

For employers, we produce newsletters, hold information meetings, conduct training seminars and provide a pension administration manual.

Investment Services

Almost 80% of a member's pension is funded by investments, with the remainder coming from contributions.

Since an OMERS member could pay into the plan for 35 years and receive a pension for another 25 to 30 years or more, our investment horizon must span several decades, and that influences our selection of investment assets. We invest in assets that offer the best prospect of long-term growth, although returns may fluctuate in the short term. By maintaining a long-term view, we can create the financial resources needed to assure all members of a guaranteed and fully-indexed pension.

Investment objective

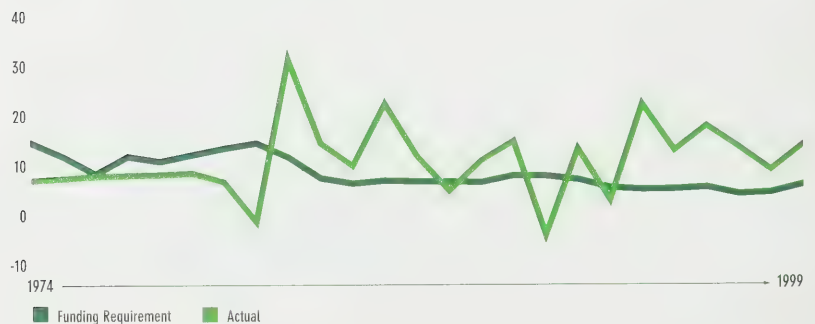
The Plan needs to earn on average 4.25% per year above the rate of inflation to meet the long-term cost of benefits. Although inflation in Canada has been less than 2% until recently, over the long term it is projected at 3% annually. As a result, the nominal investment target for the next several years is 7.25%.

The investment objective assumes the Plan will maintain a surplus as a contingency reserve against the high risk of short-term declines in investment values and changes in actuarial assumptions. It also assumes stable contribution rates over the long term.

Investment approach

The Plan's financial strength and extremely long investment timeframe enable us to follow a prudent investment policy that emphasizes reliability and stability of returns by spreading risk over a variety of asset classes. If the Plan had more liabilities than assets, we would have to close the gap by earning higher returns over the long term while tolerating greater volatility in the short term. The Board would also have to consider raising contribution rates.

Investment Returns Actual vs. Funding Requirement (%)



Asset Policy



60%	Equity
27.5%	Fixed Income
12.5%	Real Estate

We aim for the midpoint in our target range for each asset class

Asset Mix



Foreign Equity	25.4%
Canadian Equity	36.2%
Foreign Bonds	4.5%
Canadian Bonds	19.1%
Cash	2.4%
Real Estate	12.4%

A pension fund's investment returns are determined by its asset mix policy and the behaviour of the markets in which those assets are invested. The returns of one pension fund, compared with another, primarily reflect different asset mix decisions that are based on the size and maturity of each plan's liabilities as well as the level of payroll contributions by plan members and employers.

Because the matching of assets with long-term liabilities is the driving force behind a pension plan's investment policy, performance is very much a long-term perspective. A pension fund need not be overly concerned about short-term fluctuations in market values because it is not investing for the short term.

Asset mix

The most important investment policy decision is setting the asset mix, which directly influences fund returns. This involves choosing investments that best match the plan's liabilities – the money needed to pay future pensions. A comprehensive review of the asset mix policy is normally undertaken every four years, with the last one completed in early 1997.

OMERS has three broad asset classes, each with a different risk/reward profile and timeframe for optimum performance:

- **Equities**, or stocks, are highly volatile in the short term, but are expected to produce better returns than bonds and real estate over the long term. For publicly-traded stocks, the ideal investment timeframe is three to five years, while for private equity it can extend to 10 years.
- **Bonds** are less risky and volatile than stocks, and provide steady income as well as the return of the original capital at maturity. The investment timeframe is most often five to 10 years.
- **Real estate** is an effective hedge against inflation, offsetting the indexed nature of pension benefits, and tends to deliver superior returns over a horizon of at least 10 years and usually much longer.

Our asset mix policy reflects the different performance expectations of these asset classes. Within each class, risk is diversified over several portfolios based on industries and geographic markets that move on different growth cycles. For example, approximately 30% of the fund's investments at market value were exposed to markets outside Canada in 1999 through direct investments and derivative contracts. In recent years, foreign stock and bond markets have outperformed Canadian markets. In 1999, however, Canadian markets performed as well as or better than U.S. and overseas counterparts.



organization

Our pension plan is well-managed,
financially sound and has a proven track record

Equities

Our equity investing recognizes that when we buy stocks, we buy an ownership position in companies. At the end of 1999, we had \$19.6 billion invested in stocks, of which 62% was in Canadian public and private companies. We owned on average almost 2% of the market capitalization of the companies listed in the TSE 300 index on the Toronto Stock Exchange.

We follow three strategies for equity investing, with the emphasis on active rather than passive management.

Actively managed stocks: We have created one of the largest actively managed stock portfolios in Canada. At the end of 1999, it contained 371 stocks valued at \$10.4 billion. The portfolio is 80% managed by staff and 20% by external managers with expertise in particular market sectors. We invest in growth companies where large capital gains can be achieved, though at higher risk, over the long term.

Some institutional investors, such as mutual funds, focus on quarterly and annual investment returns and trade actively to maximize returns. We invest over several market cycles and principally buy corporate shares to hold rather than trade.

OMERS diversifies its portfolio by type of security, investment style, industry, geographic region, country and time to maturity.

Outside Canada, we have a \$5.4 billion portfolio that is managed by several external managers and consists of 1,334 stocks selected from established indices in the United States and internationally. We believe in investing in different economies around the world, although we select individual companies, not countries. Approximately 50% of our foreign equity exposure is in the United States, with the remainder split between Europe and the Far East.

While equities create wealth over the long haul, the Canadian market represents only 2% of world capital markets. Consequently, we are paying increased attention to the global nature of capital markets by favouring companies with growing international operations.

Indexed stock funds: Buying shares to replicate a recognized stock index is a cost efficient method for large investors like OMERS to invest in equities. Index funds are expected to match the performance of their respective index, less transaction costs.

Investment Services

In Canada, we invest in the shares of the companies that make up the TSE 300 Index, such as major banks, insurance firms, technology companies, consumer goods producers and retailers, and resource companies. In 1999, we had \$1.3 billion in Canadian stock index funds.

Outside Canada, we focus on the S&P 500 index of companies in the United States and had \$1.7 billion invested in this index in 1999.

Merchant banking: Investing in private companies diversifies our assets beyond the extreme valuations and volatility of public markets. There are numerous private firms in Canada and around the world that can benefit from our financial and strategic support. They offer good capital growth potential over several years, and we eventually realize gains through a public share offering or the sale of our interest to management or private investors. We are now a major merchant bank funding source in Canada and at the end of 1999 had placed \$849 million in private equity and \$216 million in private debt.

Fixed-income investments

Traditionally we have invested equally in short-term, mid-term and long-term bond portfolios, and a large mortgage portfolio. With Canadian governments reducing their borrowings, we are concentrating on expanding our investments in corporate bonds. Recently, we changed our approach by forming a core \$4.1 billion bond portfolio, which provides us with increased internal flexibility to take opportunistic positions. As a result, we reduced the number of Canada bond issues in which we participate from roughly 54 to 33. Similar consolidations have occurred in provincial issues. The net effect should be higher returns from fixed-income investments.

Derivatives

Derivatives are financial agreements between OMERS and counterparties, such as banks, insurance companies and investment dealers. These contracts take their value from an underlying asset, such as a group of stocks or bonds, or from underlying interest rates and currency exchange rates. OMERS was one of the first Canadian pension funds to use derivatives, starting in 1995, to rebalance and refine the asset mix and to facilitate a better matching of assets and liabilities.

Derivatives enable us to maximize exposure to foreign bond and equity markets, provide greater liquidity than owning the underlying assets, are a cost effective form of investing, and enhance overall returns. They also facilitate efficient risk management among different types of assets and different countries. Our derivative contracts are discussed further in Note 4 to the financial statements.

The notional value of derivative contracts in 1999 was \$4.4 billion, compared with \$4.0 billion a year earlier. Our net credit risk exposure from derivatives at the 1999 year-end was \$127 million, or 0.4% of the fund.

Good corporate governance practices are important in focusing corporate managers on creating long-term shareholder value.

The rapid development of derivative markets worldwide has increased opportunities. We have extensive monitoring and control processes that give us the confidence to expand our participation in derivative-based foreign bonds, and Canadian and foreign equities. Consequently, we increased the allowable allocation to derivatives from 15% to 30% of total invested assets effective in 2000.

Real Estate

Real estate is one of the best investment assets available in matching our liabilities. It generates superior returns over multiple decades, acts as a hedge against inflation (a long-term concern to a plan providing indexed pensions), produces regular cash flow from the rental income stream, and has lower volatility than stocks and bonds. The cash flow from real estate in 1999, for example, was sufficient to pay 27% of all pension benefits.

We have built one of the largest real estate investment portfolios in Canada, valued at \$4.4 billion. The portfolio consists of 92% direct property ownership and 8% in real estate equity.

The 75 directly owned properties are principally "best in class" office buildings and large shopping centres in major urban markets across Canada. They include 30 office buildings purchased from the Royal Bank of Canada in 1999.

Corporate governance

We own shares in more than 1,200 companies with significant holdings in about 800 firms. It is important to us that the management of companies in which we invest focus their efforts on creating long-term shareholder value. Research has shown that companies with good corporate governance tend to generate better returns.

Good corporate governance practices include setting out the responsibilities and expected performance of management and its accountability to the shareholders. We assist companies in maintaining this focus in the way we vote the shares we own. We have published Proxy Voting Guidelines (also available on our web site) so that corporate managers and other shareholders understand how we are likely to vote on specific issues that affect shareholder value.

OMERS believes that public companies should provide much greater disclosure than is currently required by Canadian and U.S. regulators so that individual investors have access to information as readily as institutional investors.



18

Financial Performance

Change in net assets

During the year, \$3.6 billion was added to the Plan's net assets, compared with \$2.3 billion in 1998, bringing total net assets to \$34.9 billion. The entire growth in net assets in 1999 was the result of \$4.6 billion in net investment income, compared with \$2.9 billion a year earlier. Strong Canadian and foreign equity returns contributed much to the improved performance.

No income for current service was received from employers and active members in 1999 as they continued to enjoy the contribution holiday that came into effect in August 1998 under the surplus management initiative.

Net assets were decreased by \$1 billion in pension benefit payments, compared with \$920 million in 1998, and \$70 million in administrative costs, compared with \$47 million a year earlier (administrative expenses are tabulated in note 11 to the financial statements). The 9% growth in pension benefits was principally caused by higher retirements in response to early retirement incentives. The introduction of the new Membership Services System to better manage plan administration was the major reason for higher operating costs.

The plan ended 1999 with \$34.9 billion available for benefits, a gain of \$3.6 billion during the year.

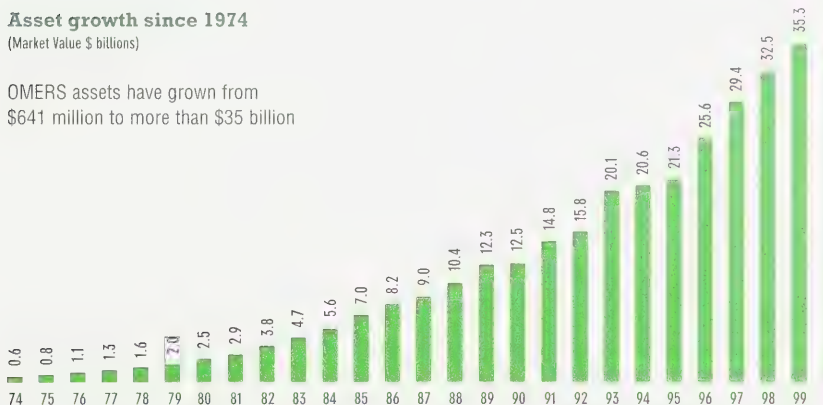
Fund Performance

OMERS was empowered to pursue an active investment policy in 1974 and has gradually developed the asset mix that exists today. Since 1974, the fund has achieved a compounded annual rate of return of 11.5%, surpassing the long-term investment objective that the plan needs to earn consistently to maintain a fully funded position.

Asset growth since 1974

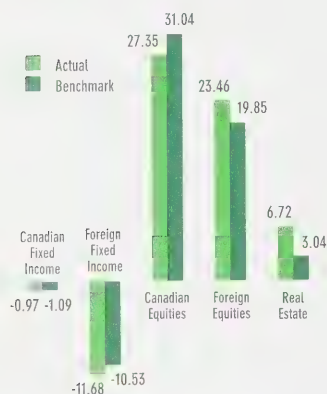
(Market Value \$ billions)

OMERS assets have grown from \$641 million to more than \$35 billion



Financial Performance

Returns vs. benchmarks by class (%)



Returns fluctuate within each class, but year after year, OMERS strong performance ensures secure pensions for our members

Returns are also measured in the short term to monitor performance in volatile markets. If short-term returns deviate unusually from market results, we can refine the asset mix to better balance fluctuations over the long term.

In 1999, our annualized rate of return for four years (a standard in the pension fund industry) was 14.8% and for one year 15.2%. These results compare favourably with the total long-term funding requirement (4.25% + inflation).

Asset class performance vs. benchmarks

Canadian equity portfolios earned 27.4% in 1999, compared with 31.0% for their benchmark (a blend of the TSE 300 index and the Nesbitt Burns Small Cap Index). The underperformance against the benchmark was due to an underweighting in Nortel, which accounted for a significant part of the total TSE 300 return in 1999. As a pension plan, we maintain a diversified portfolio, limiting the amount we invest in any one holding.

Merchant banking had exceptional results for the third consecutive year with a 29.3% return, versus 25.5% for its benchmark (an adjusted TSE 300 Index return).

OMERS rates of return vs. benchmarks

	1-Year		4-Year		10-Year	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Fixed Income						
Canadian	-0.97	-1.09	7.34	7.23	9.72	10.02
Foreign	-11.68	-10.53	4.89	5.33	—	—
Equities						
Canadian	27.35	31.04	18.34	17.46	11.30	10.50
Foreign	23.46	19.85	19.30	20.89	15.03	14.58
Real Estate	6.72	3.04	11.87	9.94	5.22	3.75
Total Fund	15.15	6.84	14.79	5.86	11.09	6.35

Foreign equity portfolios earned 23.5% to exceed 19.9% for the benchmark (based on the Russell 3000 Index in the United States and the Goldman Sachs Global Index, excluding Canada and the U.S.). The superior results reflected the success of our external fund managers in Europe and the Pacific Rim.

Canadian fixed-income portfolios had a negative 1.0% return, versus a negative 1.1% for the benchmark (the Scotia Capital Bond Universe Index). We beat the benchmark by earning higher returns from our large mortgage portfolio and negotiating improved returns on private debt.

With a negative 11.7% return, foreign fixed-income investments underperformed their benchmark (the JP Morgan Global Bond Index, excluding Canada), largely because of the performance in Japan.

The real estate portfolio had a good year with a 6.7% return, compared with 3.0% for the benchmark. We introduced a new benchmark in 1999 based on 85% of the CPI + 4.75%, and 15% of the TSE 300 real estate sub-index. Property values showed minimal appreciation in 1999 and real estate equity declined by 15%. This was offset by strong growth in cash flow from property investments.

Growth in liabilities

The actuarial present value of accrued pension liabilities totaled \$25.3 billion at the end of 1999, a 13.7% increase over the previous year.

The Plan's financial obligations to active members, pensioners and former members have grown substantially in recent years. This trend will continue as the "baby boom" generation of members enters retirement. Although wage growth has been relatively flat recently, members have been retiring earlier than expected by taking advantage of the Plan's early retirement enhancements.

Cash flow

We received \$1.3 billion in cash flow during 1999 from interest, dividend, and rental property income, plus contribution transfers by members joining OMERS from other plans and supplementary payments by employers. In addition another \$2.0 billion was realized on disposal of investments. This cash flow more than offset the \$1.0 billion paid out in benefits. The Board reviews the effect of the contribution holiday on cash flow annually. Investment income is expected to continue to exceed benefit payments during the remainder of the contribution holiday.

Financial Position

The cost of all current and future pensions is estimated on a regular basis to ensure the plan has enough money to keep the pension promise.

An independent actuary estimates the value of assets and liabilities, as well as the cost of accruing benefits, based on various economic and demographic assumptions. These estimates are prepared every year and extrapolated over the next 20 years. They assist OMERS in making decisions about the use of surplus funds.

Conservative long-term assumptions are made about three key factors – investment returns, which affect the value of assets, and inflation and salary increases, which affect the value of future benefits.

Valuing the assets

The market, however, determines the value of assets. These values can be highly volatile, with a single year's results being unusually high or unusually low. The actuary performs a calculation to smooth changes in the market value of assets for the current year plus the four preceding years to produce an adjusted market value. This smoothing of asset values provides a more objective picture of the long-term relationship of assets to liabilities.

Valuing the liabilities

To value the liabilities, the actuary examines the plan's demographics – the age, length of service, salary ranges, full-time versus part-time employment, and other factors of the diversified membership. Information is processed on active members, former members who should have entitlements in the plan, and pensioners, surviving spouses and children who receive benefits. In addition, mortality, disability and termination of employment data are factored in. OMERS collects this member data annually from more than 1,000 employers.

Change in surplus

The present value of accrued liabilities is deducted from the actuarial value of assets to calculate the actuarial surplus. From this, 5% of liabilities is set aside in a funding stabilization reserve as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations, such as accelerated early retirements.

Statement of Changes in Surplus

(\$ millions)	1999*	1998
Surplus, beginning of year	5,921	4,654
Increase in net assets available for benefits	3,550	2,272
Change in actuarial asset value (smoothing reserve)	(822)	175
Increase in actuarial value of		
net assets available for benefits	2,728	2,447
Less: net increase in accrued pension benefits	3,047	1,180
Surplus, end of year	5,602	5,921

* Projection based on 1998 valuation and changes in assets and benefits during 1999.

Actuarial Cost Certificate

As at December 31, 1999

For the Ontario Municipal Employees Retirement Board

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1998 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of OMERS as at December 31, 1998 and to examine the adequacy of the ongoing contribution structure to maintain OMERS in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the registered pension plan benefits disclosed total going concern Actuarial Liabilities of \$22,283.426 million in respect of benefits accrued for service to December 31, 1998, prior to recognition of the plan amendments known as the "Board's Package of Surplus Management Proposals". The Actuarial Assets at that date were \$28,237.059 million indicating a going concern Actuarial Surplus of \$5,953.633 million, of which \$1,114.115 million has been allocated to a Funding Stabilization Reserve by the Board. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 1998 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was \$32.852 million, leaving an overall Actuarial Surplus of \$5,920.781 million.

If the Board's Package of Surplus Management Proposals, which were effective January 1, 1999, were to be recognized as of December 31, 1998, the going concern Actuarial Surplus in respect of the registered pension plan would be reduced to \$4,799.835 million. Similarly, the net actuarial liability in respect of the full earnings pension benefits would be increased to \$35.477 million, leaving an overall Actuarial Surplus of \$4,764.358 million.

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations, in conjunction with the Actuarial Surplus, are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the funded position of the Plan assuming it had been wound up on December 31, 1998. In our opinion, the value of the Plan assets would have been greater than the actuarial liabilities if the Plan had been wound up on that date.

We have considered the likely development of the Actuarial Liabilities during 1999. Further, we have calculated the Actuarial Assets at December 31, 1999. In our opinion, the assets of the Fund at December 31, 1999 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date on both a going concern basis and a wind up basis.

The actuarial valuation of OMERS as at December 31, 1998 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- * the data are sufficient and reliable for the purposes of the valuation,
- * the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
- * the methods employed in the valuation are appropriate for the purposes of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted
Watson Wyatt & Company



Martin J.K. Brown, F.I.A.
Fellow, Canadian Institute of Actuaries
March 23, 2000

Auditors' Report

To the Ontario Municipal Employees Retirement Board

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1999 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 1999 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Accountants
Toronto, Canada

March 23, 2000

Consolidated Financial Statements

Consolidated Statement of Net Assets

(Millions)		
As at December 31,	1999	1998
Assets		
Investments (note 3)	\$ 35,278	\$ 32,529
Accrued income	133	139
Amounts due from pending trades	360	158
Other assets (note 5)	23	30
Total Assets	35,794	32,856
Liabilities		
Due to administered pension funds (note 6)	502	437
Amounts payable from pending trades	280	916
Other pension liabilities	82	123
Total Liabilities	864	1,476
Net assets (note 7)	\$ 34,930	\$ 31,380

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board



Susan O'Gorman
Member



Peter Leiss
Member

Consolidated Statement of Changes in Net Assets

(Millions)		
For the year ended December 31,	1999	1998
Increases in net assets		
Contributions (note 8)	\$ 27	\$ 372
Net investment income (note 9)	4,598	2,867
Total Increase	4,625	3,239
Decreases in net assets		
Benefits (note 10)	1,005	920
Administrative expenditures (note 11)	70	47
Total Decrease	1,075	967
Increase in net assets	3,550	2,272
Net assets at beginning of year	31,380	29,108
Net assets at end of year	\$ 34,930	\$ 31,380

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

Year ended December 31, 1999

General

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the *Ontario Municipal Employees Retirement System Act* (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the *Ontario Pension Benefits Act*, Registration #0345983.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The *Pension Benefits Act* (PBA) of Ontario requires that participating employers fund the benefits determined under the plan. In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability waivers and pensions, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the *OMERS Act and Regulation* or by contacting OMERS.

Note 1 – Summary of significant accounting policies

Basis of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

OMERS holds certain investments through subsidiaries and various other corporate structures. Subsidiaries are entities controlled by OMERS through ownership of a majority of the voting shares. Other corporate structures where there is co-ownership in the economic activities of the entity are jointly controlled by OMERS together with various partners through a proportionate ownership of the voting shares.

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of entities where there is co-ownership. Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

Note 1 – Summary of significant accounting policies (continued)

Investments

Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. As such, publicly traded securities are recorded as of the trade date of the transaction.

Investments are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is reflected in net investment income in the statement of changes in net assets as unrealized appreciation/depreciation of investments.

Fair values of investments are determined as follows:

- i) Short-term deposits are recorded at cost which, together with accrued interest income, approximates fair value.
- ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.
- iii) Real estate, composed primarily of income producing properties, is generally valued through an appraisal process which utilizes discounted future cash flows. In generating future cash flows certain assumptions are made with respect to future economic conditions and rates of return. The appraisal process is carried out annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. Jones Lang LaSalle Real Estate Services and Colliers Macaulay Nicolls Inc. are the firms of independent appraisers engaged for the 1999 valuation process.

The fair value of real estate, which has been recently acquired, is based on the purchase price.

- iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk and term to maturity.
- v) Derivatives, including interest rate swaps, bond index swap contracts, equity index swaps, equity swap contracts, equity index futures contracts and foreign exchange forward contracts, are valued at year-end market prices determined by quoted market values where available or discounted cash flows using current market yields, where quoted market values are not available.

Investment income includes dividends, interest and operating income from real estate and other subsidiaries, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Non-Investment Assets and Liabilities

The fair value of contributions receivable, accrued income, amounts due from pending trades, other assets, amounts due to administered pension funds, amounts payable from pending trades and other pension liabilities approximate their carrying amounts.

Foreign Currency Translation

Certain OMERS investments are denominated in various foreign currencies. The fair values of such investments are included in the statement of net assets and are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in unrealized appreciation/depreciation of investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss is recognized in realized gains on disposal of investments.

Note 2 – Responsibilities of the actuary and external auditors

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the OMERS Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are also appointed by the OMERS Board. Their responsibility is to report to the OMERS Board regarding the fairness of presentation of OMERS net assets, and changes in net assets as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuary for the actuarial liabilities as disclosed in the notes to the financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Note 3 – Investments

(Millions)	1999		1998	
	Fair Value	Cost	Fair Value	Cost
Interest Bearing Investments				
Cash and short-term deposits	\$ 2,462	\$ 2,462	\$ 4,298	\$ 4,298
Canadian bonds and debentures	6,071	6,179	5,860	5,376
Non-Canadian bonds	1,573	1,689	1,547	1,391
Private debt	216	224	175	173
Mortgages	1,244	1,259	1,067	1,006
	\$ 11,566	\$ 11,813	\$ 12,947	\$ 12,244
Non-Interest Bearing Investments				
Canadian equities	11,603	7,304	9,680	7,078
Non-Canadian equities	7,134	4,678	5,399	3,520
Real estate	4,126	4,115	3,995	3,916
Resource properties	111	98	69	83
Canadian private equities	509	297	207	137
Non-Canadian private equities	229	183	232	169
	\$ 23,712	\$ 16,675	\$ 19,582	\$ 14,903
Total Investments	\$ 35,278	\$ 28,488	\$ 32,529	\$ 27,147

Note 3 – Investments (continued)

At December 31, 1999, the Fund held the following investments, each having a fair value or cost exceeding 1% of the fair value or cost of total investments:

	1999 Aggregate			1998 Aggregate		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Canadian interest bearing investments	6	2,134	2,206	1	421	391
Canadian equities	2	2,612	531	4	1,618	612
Real estate properties	3	1,016	915	3	1,266	1,111
	11	5,762	3,652	8	3,305	2,114

Canadian securities where the individual issue has a cost or fair value exceeding 1% of the fair value or cost of total investments are comprised of interest bearing securities issued by the Royal Bank of Canada and the Government of Canada and equity securities issued by BCE Inc and Nortel Networks Corporation. Real estate investments above include ownership interest in the following properties, all of which are located in Ontario: Royal Bank Plaza, Square One Shopping Centre and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through entities involving joint venture and co-ownership arrangements. The fair value of OMERS proportionate share in these assets was \$2,658 million at December 31, 1999 (1998 – \$1,255 million). OMERS share of the net income earned by these entities was \$151 million for the year ended December 31, 1999 (1998 – \$86 million) and is included in net investment income from real estate.

OMERS has guaranteed certain of the obligations of the entities where it is involved on a co-ownership basis and, in certain cases, is contingently liable for the obligations of its associates. The assets of these entities are available and are sufficient for the purpose of satisfying such obligations.

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 1999, securities with an estimated fair value of \$2,579 million (1998 – \$2,438 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of \$2,708 million (1998 – \$2,560 million).

Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility and credit risk. OMERS has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments; require diversification of investments within categories; and set limits on the size of exposure to individual investments and counterparties. In addition derivative financial instruments are used, where appropriate, to assist in the management of these risks (see note 4).

Foreign Currency Risk

Foreign currency exposure arises from the Fund holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The Fund's holdings by geographical location of the issuer and by currency as at December 31 are as follows:

(Millions – Canadian dollar equivalent)	Geographical		Currency	
	1999	1998	1999	1998
Canada	\$ 25,047	\$ 23,133	\$ 21,873	\$ 23,600
United States of America	4,677	4,075	8,458	4,425
United Kingdom	1,004	911	695	714
Euro zone ⁽¹⁾	1,962	2,102	1,900	2,027
Other Western Europe	596	546	493	499
Japan	1,419	968	1,401	792
Other Pacific	262	296	276	282
Emerging Markets	311	498	182	190
	\$ 35,278	\$ 32,529	\$ 35,278	\$ 32,529

Canadian assets backing derivatives have been allocated to the geographic location/currency of the underlying asset or index from which the derivative contract derives its value.

(1) Euro zone includes the eleven member countries which merged their individual currencies into one currency known as the Euro effective Jan 1, 1999. The 1998 currency exposure for the Euro zone is the Canadian Dollar equivalent of the legacy currencies for these countries.

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuation of interest rates. The risk arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long duration of pension benefits, OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively asset values are affected more by equity markets and short-term changes in interest rates. The fixed income portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

Term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities, are as follows:

(Millions)	1999					1998	
	Term to Maturity				Average Effective Yield	Total (\$)	Average Effective Yield
	Within 1 Year (\$)	1 to 5 Years (\$)	Over 5 Years (\$)	Total (\$)			
Cash and short-term deposits	2,462	-	-	2,462	5.05%	4,298	5.14%
Canadian bonds and debentures	355	1,654	4,062	6,071	6.38%	5,860	5.22%
Non-Canadian bonds	11	734	828	1,573	5.48%	1,547	4.15%
Private debt	4	40	172	216	7.98%	175	8.05%
Mortgages	92	624	528	1,244	8.12%	1,067	6.95%
Total	2,924	3,052	5,590	11,566	6.19%	12,947	5.25%

Average effective yield represents the weighted average rate required to discount future cash flows to current market value.

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 20.2% (1998 – 8.3%) of the Canadian bonds and debentures. Non-Canadian bonds are liquid and marketable government and supra national debt issues consisting primarily of the 12 member countries of the Organization for Economic Cooperation and Development.

Credit Risk

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 4.

Note 4 – Derivative financial instruments

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset mix management and to assist in the management of financial risks, including interest rate volatility and foreign exchange risks. In certain circumstances derivatives are used to increase returns or to replicate investments synthetically.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. OMERS enters into derivative investment activities in combination with the cash and short-term deposits portfolio. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- **Swaps**, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.
- **Forwards and futures**, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

Notes to Consolidated Financial Statements

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
 - **Replacement cost:** represents the cost of replacing, at current market rates, all contracts which have a positive fair value.
- The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

(Millions)	1999				1998		
	Fair Value			Credit Risk (replacement cost)	Fair Value		
	Notional Value	Gross Assets	Gross Liabilities		Notional Value	Gross Assets	Gross Liabilities
Interest rate swap contracts	\$ 569	\$ 4	\$ -	\$ 4	\$ -	\$ -	\$ -
Bond index swap contracts	56	-	-	-	-	-	-
Equity index swap contracts	887	96	(1)	96	917	84	-
Equity swap contracts	75	17	-	17	-	-	-
Equity index futures contracts	1,675	7	(3)	7	2,495	12	(1)
Foreign exchange forward contracts	1,140	3	(13)	3	571	7	(9)
Total	\$ 4,402	\$ 127	\$ (17)	\$ 127	\$ 3,983	\$ 103	\$ (10)

All derivative instruments mature within one year except interest rate and bond swap contracts with a notional value of \$417 million (1998 – nil) that mature between 2000 and 2002.

Note 5 – Other assets

(Millions)	1999	1998
Long term receivables ⁽¹⁾	\$ 15	\$ 21
Other	8	9
	\$ 23	\$ 30

(1) Under the terms of the *OMERS Act and Regulation* certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long-term receivables to be paid, with interest, over a period not to exceed fifteen years. The fair value of the long-term receivables, which are valued using discounted cash flows using current market yield, is approximately \$15 million (1998 – \$21 million).

Note 6 – Due to administered pension funds

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with income based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

Note 7 – Net assets

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long-term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	1999	1998
Assumed rate of inflation	3.0%	4.0%
Assumed rate of pensionable earnings increases	4.5%	5.5%
Assumed actuarial rate of return on plan assets	7.0%	7.5%

The extrapolation of the actuarial valuation to December 31, 1999, which follows, takes account of amendments made to the plan up to December 31, 1999. The 1998 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1998.

(Millions)	1999	1998
Fair value of net assets at end of year*	\$ 34,921	\$ 31,372
Adjustment to the fair value for actuarial purposes	(3,957)	(3,135)
Actuarial value of net assets at end of year	30,964	28,237
Actuarial present value of accrued pension		
benefits at beginning of year	22,283	21,105
Ad hoc increases to pension benefits	-	18
Interest accrued on benefits	1,893	1,582
Benefits accrued	966	908
Benefits paid	(1,005)	(920)
Plan amendments	3,498	-
Changes to actuarial assumptions	(1,848)	-
Experience gains	(455)	(410)
Actuarial present value of accrued		
pension benefits at end of year	25,332	22,283
Full earnings pension assets	9	8
Full earnings pension liability	39	41
Net liability of full earnings pension	30	33
	25,362	22,316
Excess of actuarial value of net assets over		
actuarial present value of accrued pension benefits	\$ 5,602	\$ 5,921

* Excludes full earnings pension assets

A portion of the excess of actuarial value of net assets over the actuarial present value of accrued pension benefits has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve for 1999 is \$ 1,267 million (1998 – \$1,114 million).

The full earnings pension benefit was set up within the *OMERS Act and Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*.

In May 1999, the Ontario Government approved a package of surplus management proposals put forward by the OMERS Board. The following benefit changes were included, with retroactive effect from January 1, 1999:

- The contribution holiday, which is subject to annual review, was extended to December 31, 2001, after which time regular contributions are to be resumed in stages over a three-year period.
- The age plus years of service factor which entitles members to an unreduced early retirement pension was reduced from 90 for Normal Retirement Age 65 members and 85 for Normal Retirement Age 60 members to 80 and 75 respectively for members who retire on or after January 1, 1999 and on or before December 31, 2001 (factors of 85 and 80 respectively were already in effect for members who retire on or after November 30, 1997 and on or before December 31, 2002).
- Eligibility for early retirement was extended from members within 10 years of normal retirement age to members within 15 years of normal retirement age, provided retirement occurs on or after January 1, 1999 and on or before December 31, 2001.
- Guaranteed inflation-based indexing of benefits was increased from 70% to 100% of the annual increase in the Consumer Price Index.
- The maximum amount of pension a surviving spouse with eligible children can receive has increased from 75% to 100% of the deceased member's lifetime pension.
- Contributions made by members prior to January 1, 1992 but after they had completed 35 years of credited service will be refunded, with interest.
- The Canada Pension Plan offset which applies at age 65 has been reduced from 0.7% of pensionable earnings up to the average YMPE to 0.675%, increasing the lifetime pension. The averaging period for the YMPE used to calculate the offset has been increased from three to five years.

The changes to the Canada Pension Plan offset calculations cannot be implemented until amendments to the *Municipal Act* have been made. When implemented, they will also be applied with retroactive effect from January 1, 1999. Allowance for the increased benefits due to the changes in the offset calculation has been included in the actuarial present value of accrued benefits at December 31, 1999.

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits is presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act* of Ontario, a wind-up valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. The actuarial present value of accrued pension benefits, excluding the full earnings pension benefits, was estimated to be \$28,638 million as at December 31, 1999 (1998 – \$26,464 million). Under the solvency valuation, net assets are based on their fair value. As at December 31, 1999, the fair value of net assets excluding the full earnings assets was \$34,921 million (1998 – \$31,372 million). A reasonable allowance for the expenses of winding up the plan would not significantly reduce the assets available for benefits.

Note 8 – Contributions

(Millions)	1999	1998
Members	\$ -	\$ 176
Employers, current service	-	176
Employers, long-term receivables and interest thereon (note 5)	5	8
Transfers from other pension plans	8	6
Other contributions	14	6
	\$ 27	\$ 372

Effective August 1998, a contribution holiday for both members and employers was put into place. The contribution holiday was reviewed in 1999, and an extension to December 31, 2001 was approved, subject to annual review. These initiatives were introduced as part of the surplus management proposals discussed in note 7.

Note 9 – Net investment income

a) Net Investment Income Before Allocating the Effect of Derivative Contracts

Investment income before giving effect to derivative contracts and before allocating the realized and unrealized gains/(losses) for the period ended December 31, is presented below. Income from assets backing derivative financial instruments is reported in the particular backing asset category. Investment operating expenses of \$28 million (1998 – \$30 million) are netted against the particular portfolio where the costs were incurred. Income from derivative financial instruments of \$300 million (1998 – \$399 million) is included in the realized gains/losses on disposal and the unrealized appreciation/depreciation in the fair value of investments.

Note 9 – Net investment income (continued)

(Millions)	1999	1998
INCOME		
Interest Bearing Investments		
Short-term deposits	\$ 128	\$ 126
Canadian Bonds & Debentures	363	380
Non-Canadian Bonds	81	88
Private debt	15	12
Mortgages	107	102
	694	708
Equity Investments		
Canadian Equities	196	185
Non-Canadian Equities	88	74
Resource properties	6	10
Canadian private equities	(6)	(13)
Non-Canadian private equities	2	6
	286	262
Real Estate Investments	276	217
NET REALIZED GAINS		
on disposal of investments	2,002	2,133
NET UNREALIZED APPRECIATION/(DEPRECIATION)		
in the fair value of investments	1,425	(401)
	4,683	2,919
Less income credited to:		
Administered pension funds	69	39
Provision for supplementary retirement benefits	16	13
	\$ 4,598	\$ 2,867

b) Investment Income After Allocating the Effect of Derivative Contracts

Investment income by asset class, after allocating the realized and unrealized gains and losses on investments, is as follows:

(Millions)	1999	1998
Fixed income	\$ (153)	\$ 1,106
Canadian equities	2,901	(171)
Non-Canadian equities	1,646	1,550
Real estate	289	434
	\$ 4,683	\$ 2,919

Note 10 – Benefits

(Millions)	1999	1998
Members' pensions	\$ 817	\$ 761
Commuted value payments	121	105
Members' contributions plus interest refunded	57	44
Transfers to other pension plans	10	10
	\$ 1,005	\$920

Note 11 – Administrative expenditures**a) Operating Expenses**

(Millions)	1999	1998
Personnel services	\$ 27.5	\$ 22.0
Transportation and communication	2.1	2.1
Actuarial services	0.4	0.3
Audit services	0.3	0.4
Legal services	0.4	0.6
Other professional services	1.5	0.6
Occupancy costs and municipal taxes	2.7	2.8
Systems development purchased services	19.9	9.1
Other purchased services	8.2	5.4
Equipment and depreciation	4.1	2.6
Materials and supplies	2.4	1.3
	\$ 69.5	\$ 47.2

b) Compensation

The following information is furnished in compliance with the *Public Sector Salary Disclosure Act* 1996.

Employee	Position Held	1999	
		Salaries*	Benefits**
Bale, B	Senior Portfolio Manager, Core Fund	\$ 162,739	\$ 499
Belcourt, G	Portfolio Manager, Mortgages	120,685	394
Beswick, M ⁽¹⁾	Senior Vice President, Pensions	175,576	9,849
Bloeman, P	Asset Manager, Retail	112,285	441
Brundage, P	Asset Manager, Office	114,118	425
Buie, J	Vice President, Corporate Planning & Budget	120,272	466
Burgess, L	Senior Portfolio Manager, Private Placements	147,026	448
Carlin, C	Senior Portfolio Manager, Small Cap Fund	144,703	436
Clark, L	Vice President, Economic Policy & Strategic Research	132,133	444
Collier, I	Vice President, Private Placements	203,564	608

Employee	Position Held	1999	
		Salaries*	Benefits**
Donegan, J	Senior Portfolio Manager, External Funds	112,373	399
Eastman, E	Portfolio Manager, Fixed Income	124,793	418
Estabrooks, D	Vice President, Financial Services	113,020	440
Farmer, L	Portfolio Manager, Mortgages	118,352	385
Figuer, F	Senior Analyst	107,633	-
Fotheringham, R	Senior Portfolio Manager, Derivatives	136,883	432
Funston, E	Vice President, Pension Systems	145,551	472
Gladstone, W ⁽¹⁾	Senior Vice President, Finance & Administration	185,126	11,678
Gledhill, S	Vice President, Accounting & Financial	136,053	515
Gray, M	Senior Vice President, Portfolio Mgmt. – Office	207,801	667
Gunn, T ⁽¹⁾	Senior Vice President, Investments	354,552	1,074
Jarvis, P	Vice President, Fixed Income	175,982	614
Knight, G	Portfolio Manager, Indexed Equities	109,227	343
Lai, T	Portfolio Manager, Foreign Bonds	116,052	401
Latimer, M	Managing Director, OMERS Realty Corporation	350,316	1,033
Leckman, D	Vice President, Public Market Equities	195,480	613
Mak, R	Team Leader, Membership System	100,283	314
Morrison, J	Senior Vice President, Portfolio Mgmt. – Retail	239,950	778
Oakley, D	Vice President, Pension Administration	124,000	494
Paget, M	Manager, Application Services	116,608	389
Parr, D	Senior Portfolio Manager, Private Placements	133,252	430
Peto, D	Portfolio Manager, Equity Trading	127,611	417
Platt, G ⁽¹⁾	Senior Vice President, Corporate Affairs	160,632	10,037
Ramasawmy, R	Manager, Systems Services	118,048	377
Richmond, D ⁽¹⁾	President & C.E.O.	314,386	20,505
Senst, G	Vice President, Real Estate	194,538	608
Vaillancourt, C ***	Vice President, Information Services	164,098	501
Winkler, W	Manager, Computing Infrastructure Services	120,746	396
Woolsey, J	Vice President, Private Market Investment Services	106,409	420

* Salary includes incentive bonuses awarded on the attainment of total fund, corporate, and divisional goals and objectives

** Taxable benefits include life insurance, car allowance and other taxable perquisites

*** No longer employed by OMERS

(1) Executive Compensation

OMERS executive compensation programs are governed by the Compensation Sub-Committee of the Board, which relies on independent consultants to advise on and gauge market competitiveness. The executive programs are designed to be competitive in order to attract, retain and reward the broad-based management talent needed to achieve organization objectives. In determining compensation levels, a range of comparison groups is referenced and may include other large public and private sector pension funds, financial service organizations and the broader public sector. Comparison groups can vary with executive position.

Ten Year Review of Financial Data

(\$ Millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Investments at market ^(*)										
Debt	11,566	12,947	10,625	8,554	6,737	6,560	6,673	5,682	5,678	5,122
Equity	19,586	15,587	16,022	14,612	12,149	11,935	11,570	8,505	7,766	6,475
Real Estate	4,126	3,995	2,729	2,450	2,391	2,151	1,846	1,646	1,348	865
	35,278	32,529	29,376	25,616	21,277	20,646	20,089	15,833	14,792	12,462
Assets at market value for ^(*)										
Total fund	34,930	31,380	29,108	25,378	21,213	18,389	17,778	14,005	13,091	11,140
Liability for:										
Supplementary agreements	131	116	110	121	120	134	139	136	128	117
Administered pension plans	502	437	395	341	345	2,463	2,362	1,841	1,719	1,462
	35,563	31,933	29,613	25,840	21,678	20,986	20,279	15,982	14,938	12,719
Investment income earned (incl. realized and unrealized gains)										
Basic plan	4,598	2,867	3,692	4,074	2,625	310	3,363	475	1,576	(384)
Supplementary benefit agreements	16	13	11	9	11	13	8	2	2	2
Administered pension plans	69	39	51	55	381	44	448	106	208	(52)
	4,683	2,919	3,754	4,138	3,017	367	3,819	583	1,786	(434)
Contributions received for										
Basic plan	–	364	869	874	869	870	890	878	765	683
Basic plan unfunded liabilities	27	8	21	8	6	9	11	12	18	36
Supplementary benefit agreements	–	–	–	–	1	–	1	–	1	2
	27	372	890	882	876	879	902	890	784	721
Payments to members										
Pensions paid	817	761	699	661	570	491	414	373	328	278
Contributions and interest refunded	178	149	104	89	67	51	43	37	43	54
Transfers to other plans	10	10	9	6	6	4	6	13	13	5
	1,005	920	812	756	643	546	463	423	384	337
Expenditures										
Administration	70	47	40	35	33	33	31	30	24	23
Investment operating	28	30	24	25	22	18	16	15	13	7
	98	77	64	60	55	51	47	45	37	30
Total fund annual rate of return										
Time weighted return on market value	15.2%	10.1%	14.8%	19.3%	14.2%	1.8%	23.7%	3.9%	14.5%	(3.4)%

*market value as at December 31

OMERS Board Members and Senior Officers

As at January 1, 2000



Frederick Biro, Peter Leiss, Claude Guillemette, Susan O'Gorman, Dick McIntosh, Rick Miller, Bill Rayburn



Nancy Bardecki, Walter Borthwick, David Carrington, Marianne Love, Roger Richard, Paul Bailey

Board Members

Employee Reps

Susan O'Gorman
Chair
Ontario Nursing Association

Peter Leiss
First Vice Chair
Canadian Union of
Public Employees

Paul Bailey
Police Association of Ontario

David Carrington
Canadian Union of
Public Employees

Dick McIntosh
Pensioner

Rick Miller
Ontario Professional
Fire Fighters Association

David A. Griffin
(Until April 28/99)
Police Association of Ontario

Government of Ontario Rep

Nancy Bardecki

Employer Reps

Walter Borthwick
Second Vice Chair
Mayor, Town of Wasaga Beach

Roger Richard
Past Chair
Limestone District School Board

Claude Guillemette
Reeve, East Ferris Township

Frederick Biro
Peel Police Services Board

Marianne Love
City of Brampton

Bill Rayburn
County of Middlesex

Wasim Hassan
(Until Dec. 31/99)
Municipal Electric Association

Joanne Fulkerson
(Until Mar. 31/99)
Thunder Bay Hydro

Senior Officers

Dale Richmond
President & CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance & Administration

Tom Gunn
Senior Vice President
Investments

Gillian Platt
Senior Vice President
Corporate Affairs

Advisors to the Board

Actuary
Watson Wyatt Worldwide

Auditors
KPMG LLP

Legal Advisor
**Osler, Hoskin
& Harcourt**

Master Custodian
**State Street
Canada Inc.**

Medical Advisor
Dr. D. Lewis

Mandate and Governance

Board Mandate

OMERS mandate is set out in the *OMERS Act and Regulation*.

Board responsibilities include:

- Setting OMERS strategic direction
- Allocating financial resources
- Recommending plan design changes (subject to provincial government approval)
- Determining investment asset mix allocation
- Approving contribution rates
- Appointing Chief Executive Officer and monitoring organizational effectiveness
- Establishing executive compensation policy

Board Membership

Board members are appointed by the Provincial Government for a maximum of two three-year terms.

OMERS is governed by a 13-member board composed of:

- Six employee representatives
- Six employer representatives
- 1 provincial government representative

Board Accountability

Twelve of the 13 current members of the Board are plan members – a constant reminder that policies and decisions must be in the best interests of stakeholders.

There is a mandatory orientation and ongoing continuing education program for Board members including seminars and conferences.

Each Board member receives a Board handbook that provides a comprehensive description of responsibilities.

A bi-annual Board evaluation program conducted by outside consultants was established in 1999.

There are meetings 10 times each year plus two annual strategy sessions to ensure Board members are fully aware of the Plan's management activities.

The Board attendance in 1999 was close to 100%.

The Board holds two general meetings a year with Plan members.

Board Independence

The Board has access to outside experts in plan administration and fund investment to assist them in undertaking their oversight responsibilities.

The Board appoints the CEO, who is not a member of the Board, and reviews his performance annually.

Day-to-day management of OMERS is delegated to the CEO. The Board retains responsibility for strategic management decisions.

Board Governance

The Board Governance Sub-Committee was established in 1998.

It consists of the chair, first vice-chair, immediate past chair and vice-chairs of the pension, management and investment committees.

The Committee reviews the mandate of the Board and committees, evaluates the orientation and education programs, composition, qualifications, compensation and nomination process for Board members.

It conducts a bi-annual Board evaluation with the assistance of outside consultants

Board Committees

The Board has four standing committees (listed below) and three sub-committees: governance, audit and compensation.

Executive Committee

Responsible for Board affairs, government relations, organizational changes.

Serves as compensation subcommittee to handle executive compensation and performance.

Investment Committee

Approves asset mix policy, reviews investment policy and goals, reviews major investment decisions.

Pension Committee

Oversees pension administration policy, appoints independent actuary, reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes.

Management Committee

Responsible for human resources, annual budget, strategic plan and major purchases.



**Ontario Municipal
Employees Retirement System**

One University Avenue, Suite 1000
Toronto, Ontario M5G 1P1

Telephone 416.369.2400
Toll-free 1.800.387.0813
e-mail client@omers.com
web www.omers.com

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